Tesserent Limited and Controlled Entities
ABN: 13 605 672 928

Annual Report 2021

tesserent

Securing our digital future, together.

Providing world-class cybersecurity to enterprise, government and critical infrastructure clients across the region

ABN 13 605 672 928

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Chairman and Co-CEOs' Letter

Dear Fellow Shareholders,

We are pleased to present the 2021 Annual Report for Tesserent Limited (ASX:TNT) ('the Company') that looks back on a year that represented significant growth for the Group as the Board successfully executed its strategy to strengthen its core Cyber 360 capabilities. During the year, the business completed and successfully integrated the acquisition of six complementary businesses and expanded its product and critical service offerings to its clients.

During the year ended 30 June 2021, the Group reported total sales turnover of $96.7m and statutory revenue of $67.4m (compared to $20.2m statutory revenue in FY20). In addition, the normalised EBITDA[2] result of $9.6m for FY21 represents a significant turnaround from last year's FY20 comparative results (FY20 normalised EBITDA loss of $2.8m).

Pleasingly, the Group's financial results have improved progressively throughout the year culminating in a fourth quarter turnover result of $39.2m. This also supports the business comfortably exceeding its annualised turnover run rate ambition of $150m.

The Group has achieved a normalised net profit (NPAT) of $4.9m[1] excluding acquisition related costs and non-operating share-based costs.

The Group's exceptional growth was achieved both organically, through its execution of the Cyber 360 go-to-market strategy, and through successful completion and integration of six acquisitions – with the acquired businesses adding public and private sector consulting services, managed services, specialised product expertise, plus cloud, defend and detect services to the Tesserent offering.

Turnover

$96.7m

+372%

Statutory Revenue

$67.4m

Normalised NPAT[1]

$4.9m

Normalised EBITDA[2]

$9.6m

1 Statutory reported net loss of $4.5m is adjusted for one-off acquisition related costs and non-operating share based costs.

2 Normalised EBITDA excludes acquisition related costs and non-operating share based costs

The acquisition of Loop Secure will complete in September and will further add to the breadth and depth of the Group's service offerings and turnover result.

There are also a number of potential strategic acquisitions currently in review which, if completed, will further add to inorganic earnings growth and deepen the Cyber 360 model.

During the year, Tesserent Innovation was launched in order to establish strategic partnerships with emerging technology businesses, thereby providing access to new capabilities to bring to Tesserent's customers. Under Tesserent Innovation, the Group acquired a 25% stake in each of TrustGrid and AttackBound, plus entered into an investment agreement for a 7% stake in Daltrey Pty Ltd (completed in early July 2021).

The launch of Tesserent Academy, which is a cyber-learning capability designed to promote industry cyber knowledge and develop industry talent, and the joint venture with Optic Security Group, provides the Group with a leadership position in the Cyber Education markets and Converged Security.

As announced in the market release on 11 August 2021 – the business is pursuing a new brand and business unit integration strategy to drive growth in the business. We look forward to updating the market on this initiative throughout the coming year.

We expect 2022 to be another dynamic and successful year, with the Group already delivering above budget performance and a number of wins that will provide a foundation for continued strong organic growth during the current financial year.

On behalf of the Board and Executive Team, we would like to thank and acknowledge the efforts of management and staff who have been committed to the execution and delivery of our business strategy. We would also like to thank our shareholders for their continued support as we expand on our position as Australia's #1 ASX-listed cybersecurity firm.

Geoff Lord
Chairman

Julian Challingsworth
Co-CEO

Kurt Hansen
Co-CEO

Tesserent provides its enterprise and government clients with a simplified end to end cybersecurity solution that removes the requirement to deal with multiple providers to achieve an uplift in their cybersecurity posture

Review of Operations

FY21 IN REVIEW

Background

Increasingly, organisations are coming under cyber-attack from sophisticated state-based actors, hacktivists and cyber-criminals.

As Australia's #1 ASX-listed cybersecurity provider, Tesserent provides its enterprise and government clients with a simplified end-to-end cybersecurity solution that removes the requirement to deal with multiple providers to achieve an uplift in their cybersecurity posture.

Tesserent has a primarily sovereign Aust/NZ workforce approaching 400 skilled cybersecurity professionals. Combined with in-house software monitoring solutions and access to a range of products from world-leading cybersecurity vendors, Tesserent delivers a comprehensive solution to prevent, detect and mitigate potential cyber-attacks.

With employees located across offices in Melbourne, Sydney, Brisbane, Canberra, Wellington, Auckland and Christchurch, Tesserent continues to cement its place as Australia's #1 ASX-listed cybersecurity provider. Tesserent now provides products and services to over 1,000 clients:

GOVERNMENT
- 47 Federal and State Departments and Agencies,
- 25 Local Councils

FINANCIAL
- 8 of the 12 Largest Banks in Aust/NZ,
- 6 Top Financial Services firms,
- 14 Foreign Banks

CRITICAL INFRASTRUCTURE
- 21 of the Top Energy firms in Aust/NZ

ENTERPRISE
- Tesserent works with **43 of the S&P/ASX 100**.

FY21 FINANCIAL OBJECTIVES ACHIEVED

All financial objectives for FY21 were met or exceeded, including:

- Achieving a $150m revenue run rate based on the fourth quarter revenue annualised,
- Record revenue, earnings and customer receipts growth,
- Cash flow positivity in the second half.

The Company achieved total Group turnover of $96.7m and statutory revenues of $67.4m (compared to $20.5m turnover and $20.2m statutory revenue in FY20), a 372% increase year on year.

After achieving record company growth in FY21, the Company is well placed to enter FY22 with a continuing focus on organic growth, cross-selling opportunities and strategic acquisitions where they add to the Group's Cyber 360 vision.

FY21 Operating EBITDA[1] quarter on quarter

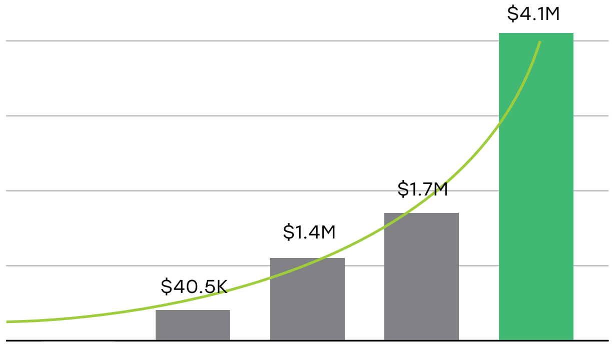

Figure 1 Operating EBITDA on a quarterly basis showing 11.1x EBITDA growth in 12 months.

FY21 Actual turnover quarter on quarter

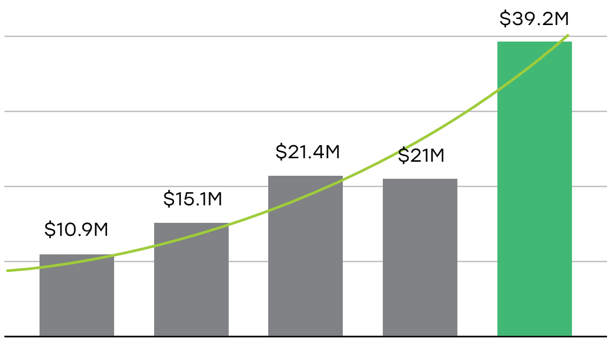

Figure 2 Actual Turnover on a quarterly basis, and is a non-statutory measure (excludes recent announced acquisitions not yet in control period).

1 Operating EBITDA is the metric that management use to monitor and manage the business throughout the year and is consistent with that reported in the quarterly 4C announcements. It excludes the positive impact of AASB16 adjustments and fair value adjustments.

Review of Operations

continued

BOARD UPDATE

In FY21, Megan Haas, a former PwC Cyber Security & Forensic Services Senior Partner who has worked with organisations across industries including pharmaceutical, gaming, retail, manufacturing, government, media, financial services and communications, joined the Board as a Non-Executive Director. Megan replaces Patrick Flannigan, who joined the board with Chairman Geoff Lord as part of the board refresh in FY20. Patrick resigned his position in January 2021, and the Company thanks him for his contribution to the Board and efforts to advance the activities of the Company.

STRATEGIC GROWTH

To complement existing strategic acquisitions, FY21 also saw the addition of Tesserent Innovation and Tesserent Academy, two divisions designed to drive growth through strategic investments and industry education.

Tesserent Innovation is focused on developing and investing in new cyber technologies, cyber products, and innovative companies that are developing leading technology platforms and tools that will enable Tesserent to deliver enhanced capabilities to our customers. In FY21, TNT acquired a 25% stake in each of TrustGrid and AttackBound, and also entered into an investment agreement for a 7% stake in Daltrey Pty Ltd (completed in early July 2021).

The purpose of the Tesserent Academy is to improve the cyber talent ecosystem, playing an active role in developing talent and addressing the skills shortage in the sector.

In mid FY21 Tesserent formed a JV partnership with Optic Security Group, Australasia's largest independent and most technically advanced converged Enterprise Security Risk Management Group.

This partnership has already realised positive commercial value to Tesserent through cross selling opportunities identified and, as importantly, is leading the market in developing strategic thinking and frameworks to connect the physical security world and the digital, or converged security, world. We look forward to updating the market further in FY22 as this convergent security marketplace evolves.

INTEGRATION AND SYNERGIES

Having acquired six businesses in the past 12 months, organic growth potential from unlocking further cross-selling synergies, and accelerating revenue growth, is significant.

From September FY22, Tesserent Limited, the parent company and corporate-facing entities will go to market from a single entity with a single customer-facing brand, Tesserent, that incorporates services from TNT's existing business units:

- Tesserent Defend incorporating services from Airloom, Pure Security and Rivium,
- Tesserent Detect incorporating services from Secure Logic and Pure Security,
- Tesserent Cloud incorporating services from iQ3 and Pure Security,
- Tesserent NZ incorporating services from Lateral Security and including services from the Tesserent Defend, Detect and Cloud brands.

These changes have occurred in Q1 FY22 with the primary objectives being to consolidate services under a clearly defined brand to help improve the customer experience and ultimately increase the number of Tesserent services utilised per customer.

North Security and Seer Security's considerable success driving TNT's Federal Government offerings will continue 'as is' for the foreseeable future.

Tesserent is also delivering further integration and synergy initiatives including:

- An annualised cost saving benefit of $1.3m in the last 12 months with an additional $700k identified through office consolidation, internal IT spend rationalisation, and business unit alignment that has already been delivered,
- Group-wide internal systems and process efficiency analysis for further cost efficiency opportunities,
- Further investment into 'people' systems to help build on our already impressive employee Net Promoter Scores (NPS) and ability to attract, and retain, high-level talent,
- A group-wide CRM uplift project aligning our systems to our capability lead go-to-market strategy, enhancing our ability to connect with and support our customers, as well as identifying white space opportunities,
- Finalising our processes with our joint venture and Tesserent Innovation partners to ensure we realise the full benefits of these partnerships and deliver key capabilities to our customers effectively.

CAPITAL RAISE

On 24 September 2021, the Group completed a capital raise (via an equity placement with a number of institutional investors) raising $25m to fund future identified acquisitions. The placement was significantly oversubscribed, which management and the Board believe reflects market confidence in the strategy and prospects of the Group. An equity capital raise was chosen to optimise the capital structure of the Group and has also had the impact of enhancing Tesserent's visibility in the ASX market.

FUTURE FOCUS

The Board and Management Team continues to focus on creating shareholder value by building on Tesserent's position as Australia's #1 ASX-listed cybersecurity provider. Important goals over this new financial year include:

- Continue to drive the Company's acquisition strategy to expand on Cyber 360 capabilities and market share, increasing shareholder value through incremental EPS growth,
- Foster innovation and expand proprietary intellectual property to drive high-margin product and service offerings,
- Help drive an industry wide capability uplift and reduce the skill shortage gap through the Tesserent Academy,
- Focus on capturing further market share in three key markets: Government (including Defence), Critical Infrastructure and Industry and Financial Services,
- Drive growth through deeper customer engagements and increase our average number of services per customer to continue the momentum of organic growth from FY21,
- Integrate acquisitions to maximise synergy efficiencies and drive organic revenue growth through cross-selling,
- Build out high-value, high margin, recurring annuity revenue streams via our Cloud, Secure Eye Monitoring, Incident Response and Security as a Service packaged offerings,
- Explore International expansion opportunities with a focus on Australia's key Five Eyes allies, which consists of the USA, UK, NZ and Canada,
- Build a leadership position in the Converged Security market together with JV partner Optic Security and in Cyber Education via Tesserent Academy,
- Continue to identify and pursue tactical acquisitions that add strength and depth to the Group's service offering and meet the Board's stated strategic objectives,
- Monitor and review the Group's capital structure to raise and deploy funds that allow the business to make these acquisitions and minimise the Group's cost of capital.

The Company looks forward to providing further market updates on its future financial and commercial objectives in coming announcements.

Tesserent's Cyber 360 strategy radically simplifies cybersecurity for our clients, helping them achieve full end-to-end protection for their digital assets

About Tesserent

TESSERENT TODAY

As Australia's #1 ASX-listed cybersecurity provider, Tesserent's Cyber 360 offering radically simplifies cybersecurity for our clients, helping them achieve full end-to-end protection for their digital assets.

Cyber 360 utilises a range of products from world-leading cybersecurity vendors, delivering a comprehensive solution to prevent, detect and mitigate potential cyber-attacks. This is delivered by more than 350 cybersecurity professionals across offices in Melbourne, Sydney, Brisbane, Canberra, Auckland, Wellington and Christchurch.

Tesserent's Cyber 360 offering provides products, services and strategic advice to more than 1,000 Enterprise, Government and Critical Infrastructure clients, including:

1. Cyber Strategy and Consulting
2. Security Advisory (GRC)
3. Technical Assurance and Testing
4. Security Integration and Development
5. Network and Cloud Security
6. Identity and Access Management
7. Managed Services and Monitoring
8. Digital Forensics and Incident Response
9. Cyber Education
10. Converged/Physical Security

HISTORY

Following its Initial Public Offering (IPO) in 2016, Tesserent operated primarily as a Managed Security Services Provider (MSSP) delivering services from its ISO-certified Security Operations Centre (SOC) to medium-sized enterprises, local government and educational institutions.

FY18 saw Julian Challingsworth appointed as CEO and the introduction of Tesserent's new Cyber 360 strategy in 2019, which included growth through strategic acquisitions. A January 2020 Board refresh, which included the appointment of Geoff Lord as Non-executive Chairman and Kurt Hansen as Co-CEO/Executive Director, was a key element in driving Tesserent's strategy forward.

FY21 included the addition of Megan Haas to the Board as a Non-Executive Director, plus the addition of Tesserent Innovation and Tesserent Academy, two divisions designed to drive growth through strategic investments and industry education.

Strategic acquisitions include:

1. **Rivium** specialises in consulting, implementation and managed services for the enterprise security solution Splunk. Completed in July 2019.
2. **Pure Security** complements Tesserent's offerings with penetration testing, secure application development and security advisory services. Completed in December 2019.
3. **North Security** brings expertise in cybersecurity, Governance, Risk and Compliance (GRC), project management and digital transformation to Australian Federal Government departments and agencies including Defence and Law Enforcement. Completed in March 2020.
4. **Seer Security** provides specialist high-security services and delivery capabilities to Australian Federal Government departments and agencies including Defence and Law Enforcement. Completed in August 2020.
5. **Airloom** is a Sydney-based cybersecurity firm with a focus on security architecture and cloud migration services. Completed September 2020.
6. **Ludus Cybersecurity** rounds out Tesserent's standing as the largest end-to-end cybersecurity services provider in the Canberra market. Completed in September 2020.
7. **iQ3 Secure Cloud Services** materially complements Tesserent's Cyber 360 strategy and represents a significant step forward in Tesserent's ability to provide a full end-to-end cyber service, and has a significant presence in the NSW Government. Completed in October 2020.
8. **Lateral Security** is a cybersecurity consulting firm headquartered in New Zealand and specialising in advisory, security testing, incident response and managed services. Completed February 2021.
9. **Secure Logic** is a leading Australian Managed Security services firm that sees further strengthening of Tesserent's presence in State and Federal Government departments and agencies. Completed April 2021.
10. **Loop Secure** is a leading Australian cybersecurity firm providing Managed Security Services, GRC and Offensive Security services. To be completed by the end of September 2021.

Board of Directors

GEOFF LORD

Non-Executive Chairman

Geoff is the Founder and CEO of the Belgravia Group, a privately held investment group which since being established in 1990 has grown to employ more than 10,000 people in businesses spanning sports and sports technologies, fitness, leisure, sports camps, clothing and more.

In addition, Geoff is the former Founder and Chairman of UXC Limited, one of Australia's largest IT services businesses. After being founded in 2002 as a $5m business, UXC grew under Geoff's leadership to be acquired in 2016 by NYSE-listed Computer Sciences Corporation (now DXC Technology) in a deal valued at A$427.6m.

Other board positions held by Geoff include Director Melbourne Business School, founding Director of SME finance business Judo Bank and Chairman of Salvest. He has also shown a significant passion for sports and clubs, having served as Chairman of Hawthorn Football Club and Melbourne Victory. Geoff is a Life Member of both clubs.

Geoff's formal qualifications include an MBA (Distinction) (Melbourne), BEc (Hons) (Monash), FIDA, ASIA.

Geoff is the largest shareholder in Tesserent and has acted as an advisor to the board since early 2019.

JULIAN CHALLINGSWORTH

Co-Managing Director and Co-Chief Executive Officer

Julian joined Tesserent after serving as Managing Director and a Partner of The Litmus Group for over 10 years and a board member and Partner of PPB Advisory. In addition to advising over 20 organisations on growth acceleration strategies in Australia, Asia and Europe, Julian was a key driver in growing Litmus in Australia and internationally before it was acquired by PPB Advisory.

Julian was a director of Cordence Worldwide, a global consulting partnership with 2,800 consultants across 60+ locations. Julian worked with the international team to develop sales and growth strategies for the 8 member firms.

With a strong professional services and corporate finance background, Julian has a Masters of Organisational Consulting from Ashridge Business School (UK), a Graduate Diploma in IT, Swinburne University (Aust) and a Bachelor of Business, Accounting, RMIT (Aust). Julian is a member of Chartered Accountants (CAANZ), Fellow Australian CPA (FCPA) and a Graduate, Australian Institute of Company Directors (GAICD).

KURT HANSEN

Co-Managing Director and Co-Chief Executive Officer

Kurt has over 30 years of IT industry experience driving sales and delivery transformation and impressive business growth across many IT and Cybersecurity organisations in Australia and New Zealand.

Kurt was the CEO at Pure Security where, as part of the PS&C Group he integrated four Security businesses following their acquisition and listing onto the ASX. Previous roles include executive, senior management and operational positions at Check Point Software Technologies, F5 Networks, AirData, Symbol Technologies, Telstra Wholesale, Cisco Systems, and Ericsson.

Prior to commencing his corporate career, Kurt joined the Australian Army as an electronic trainee, later becoming a commission officer and finishing his military career in Royal Australian Signal Corp with the rank of Captain. He holds a Diploma of Engineering from Swinburne Institute of Technology.

See pages 26 to 28 for further information

GREGORY BAXTER

Non-Executive Director

Board member since 2015. Greg is currently Chief Transformation Officer Hewlett Packard, leading HP's IT, Cyber, Software, Data & AI, and Transformation Management organizations. Greg was previously Chief Digital Officer at MetLife and Global Head of Digital at Citibank, leading Citi's digital transformation across businesses and geographies.

Greg specialises in the development and delivery of digital strategy, corporate innovation and business transformation. He has held senior business, consulting and technology roles across Asia, Europe and North America, with a track record of high-impact business results.

Greg was a council (board) member of Chatham House (Royal Institute of International Affairs), a leading international affairs think tank. He holds a BSc from Monash University and an MBA from the University of Melbourne and has been a guest lecturer on strategy at the University of Oxford, New York University, and American University (Washington).

MEGAN HAAS

Non-Executive Director

Megan's core competencies are centred around cyber risk, governance, technology and operational processes developed over 30+ years both in Australia and internationally. Formerly a PwC Cyber Security & Forensic Services Partner, Megan has worked with organisations across international borders and industries including pharmaceutical, gaming, retail, manufacturing, government, media, financial services and communications.

Megan has a BBUS Accountancy & Information Systems (RMIT), GAICD. Megan's other Directorships include: Note Printing Australia (audit committee), RMIT University (Council member), Development Victoria (Chairperson) and the Suburban Rail Loop Authority.

Executive Team

JULIAN CHALLINGSWORTH

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JAMES JONES

Group CFO, Tesserent

James joined Tesserent after serving as CFO of the Australian FMCG business, Bellamy's Organic Group which was formerly an ASX listed business (sold in a public to private transaction in 2019).

In his role at Bellamy's, James was responsible for leading the Finance team across multiple jurisdictions in the delivery of technical accounting, reporting, audit and tax requirements plus statutory reporting and board reporting for Bellamy's Group.

Prior to his role at Bellamy's, James was a Director at Deloitte and EY (UK) working in an advisory capacity on restructuring, distressed assets and M&A transactions.

James has worked on the ground on both sell side and buy side mandates, as well as fund raisings and Stock Exchange listings on both ASX and LSE. James has a Bachelor of Commerce and a Bachelor of Science from The University of Melbourne (Aust) and is a member of Chartered Accountants (CA ANZ).

James commenced: April 2021

ALEXANDRA BELCHER

Head of Marketing

With experience in IT sector B2B and B2C marketing, client experience management, corporate internal communications and customer facing roles - some of these across complex multi-national teams and some within medium-sized businesses, Alex is an adaptable communicator and manager. Her experience includes varied marketing, sales and IT operations management roles at organisations including IBM, Telstra and Jellis Craig.

Alex holds a Bachelor of Arts (University of Melbourne), a Masters of Marketing (Melbourne Business School) and AICD Foundations.

CHRIS HAGIOS

Managing Partner, Defend & Protect

Chris was the founder and Managing Director of Airloom. Chris has over 20 years of start-up and high growth technology company experience leading consulting, product, software development, marketing and sales teams. He brings innovation and success in mobile, cloud and the cybersecurity industries with his unique business sense, technical acumen and vision for the future protecting enterprise data.

Chris leads the Tesserent Defend BU and has oversight to develop and grow our Assurance, Advisory/GRC, Products & Technology and Data & Analytics segments, all of which are focussing on services and solutions designed to defend and protect our clients' digital assets.

CRAIG HUMPHREYS

Managing Partner, Cloud

Craig is an IT veteran having held leadership positions in both Australian and multi-national organisations over the past 25 years. He founded iQ3 in Sydney in 2010 with a strong vision to address the dynamic landscape of IT and the growing appetite for consuming IT as a Service.

Building a team of professionals and establishing a significant position delivering Secure Cloud services to a large number of Government organisations, as well as Australian and multi-national corporate clients, saw iQ3 ranked 28th in BRW's fast 100 in 2015.

Craig leads the Tesserent Cloud Business Unit providing clients with highly secure services lines involving public cloud, private cloud/IaaS and hybrid managed cloud offerings.

Executive Team

continued

GEORGE KATAVIC

CEO, north - security.digital

George has more than 25 years experience with consulting organisations in the Federal Government market. George founded BCT, a specialist in Defence and National Security consulting which later became part of UXC in 2006. From that time George was responsible for building UXC Consulting in the ACT, combining 6 disparate and small brands which evolved into the largest Australian owned Consulting organisation in the ACT. With over 200 staff including over 100 cybersecurity staff, UXC was the largest cyber consulting organisation in the Federal Market.

Prior to his current role with north, George was the Managing Partner of DXC Consulting in the ACT. He co-founded north in 2018 which has cemented itself as a leader in the cyber field in the ACT.

George commenced:
December 2019

EMMELINE MCILLREE

Chief People Officer

Emmeline is an energetic and accomplished Human Resources Executive with extensive experience across a variety of industries. Her experience in senior HR roles includes some of Australia's most well-known brands - PwC, St Kilda Football Club, Australia Post, Telstra and the Melbourne Racing Club.

Throughout her career, Emmeline can evidence a track record of driving, implementing and embedding sustainable change. She is effective at managing ambiguity and complexity, turning strategy into action and influencing people-decisions via sound judgement and trusted relationships.

An engaging and authentic leader who is passionate about people and creating great places to work, Emmeline is eager to make a positive impact!

Emmeline commenced:
November 2020

DEEPAK SINGH

Managing Partner, Detect

Deepak is a seasoned Information Security professional with over 20 years of experience in the information security domain. He has held leadership roles in local and international information security organisations of various scale.

He was instrumental in the growth and success of Secure Logic, which provided end to end information and cybersecurity solutions and services in various sectors. His customer focused view enables the right balance of security investment against business objectives, which is driven through his expertise in the field.

Deepak leads the Tesserent Detect BU which provides secure monitoring and detection services designed to protect our client sensitive assets and information against global cyber threats.

Deepak commenced:
March 2021

HAMISH SOPER

Senior Partner, New Zealand

With over 15 years' experience transforming IT businesses, this role will see Hamish take the Tesserent Defend, Detect & Cloud offerings to the NZ Market and assist the Tesserent Lateral Security team to expand the existing Advisory/GRC and Assurance business.

Previously, Hamish was Country Manager with Check Point Software Technologies where he built the business from $2M to $16M over a 10 year period. In 2017 he established the AppDynamics (a Cisco Company) business in New Zealand and then returned to Check Point in 2018 as ANZ Channel Director. Earlier roles include running the M2M (IoT) sector at Vodafone.

Hamish commenced:
August 2021

Corporate Governance Statement

The Company has adopted systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the spirit of corporate governance commensurate with the Company's needs.

The Company has adopted The Corporate Governance Principles and Recommendations (4th edition) as published by the ASX Corporate Governance Council (ASX Recommendations).

Consistent with prior years, the Board does not consider that all of the ASX Recommendations are appropriate for the Company, and where Tesserent has not followed an ASX Recommendation, this has been identified in the Corporate Governance Statement, together with the reasons why it has not been followed.

The Board considers that the current board composition provides a cost effective and practical method of directing and managing the Company. The Board has been composed with consideration to the experience, skill sets and capabilities of each director and the combined capabilities required for an ASX-listed cybersecurity business. As Tesserent's activities develop in size, nature, and scope, the size of the Board and the implementation of additional corporate governance policies and structures will be revisited.

The Company's corporate governance policies and practices are outlined below and the Company's full Corporate Governance Plan is available in a dedicated corporate governance information section of the Company's website: www.tesserent.com.

a. **Code of Conduct** – This policy sets out a statement of the shared values of the Company and how the Company conducts itself and its business.
b. **Board Charter** – This policy sets out the principles for the operation of the Board and describes the functions of the Board and those functions delegated to management of the Company.
c. **Selection and Appointment of New Directors Policy** – This policy ensures that the procedure when selecting and appointing new Directors is formal and transparent.
d. **Board and Senior Executive Evaluation Policy** – This policy sets out the process relating to performance and evaluation of the Board, senior executives and individual Directors.
e. **Appointment of External Auditor Policy** – This policy summarises the conditions on which the Company will select an external auditor.
f. **Continuous Disclosure Policy** – This policy sets out certain procedures and measures which are designed to ensure that the Company complies with its continuous disclosure obligations.
g. **Trading Policy** – This policy is designed to maintain investor confidence in the integrity of the Company's internal controls and procedures and to provide guidance on avoiding any breach of the insider trading laws.
h. **Anti-Bribery Policy** – This policy sets out the practices which the Company follows to ensure compliance by the Company, its Directors, Senior Executives and employees with the anti-bribery or anticorruption laws in the jurisdictions that the Company operates.
i. **Shareholder Communications Policy** – This policy sets out practices which the Company will implement to ensure effective communication with its Shareholders.
j. **Diversity Policy** – This policy sets out the Company's objectives for achieving diversity amongst its Board, management and employees.
k. **Audit and Risk Management Committee Charter** – This policy sets out the objectives and procedures for the Audit and Risk Management Committee when it is in operation.
l. **Nominations and Remuneration Committee Charter** – This policy sets out the objectives and procedures for the Nominations and Remuneration Committee when it is in operation.

ADHERENCE WITH AND DEPARTURES FROM RECOMMENDATIONS

The Company's compliance with and departures from the Recommendations during the reporting period are set out on the following pages.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
1.1	A listed entity should have and disclose a board charter setting out: a. the respective roles and responsibilities of its board and management; and b. those matters expressly reserved to the board and those delegated to management.	The respective roles and responsibilities of the Board and executives are defined in the Board Charter. There is a clear delineation between the Board's responsibility for the Company's strategy and activities, and the day-to-day management of operations conferred upon the Company's officers.
1.2	A listed entity should: a. undertake appropriate checks before appointing a director or senior executive or putting someone forward for election as a director; and b. provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	The procedure for the selection of new Directors is set out in the Selection and Appointment of New Directors Policy. Under this policy, Shareholders are required to be provided with all material information relevant to making an informed decision on whether or not to elect or re-elect a Director.
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	The Company has entered into a written agreement with each Director and senior executive.
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	The Company Secretary, Oliver Carton, reports directly to the Chairman of the Board. The role of the Company Secretary is outlined in the Board Charter.
1.5	A listed entity should: a. have and disclose a diversity policy; b. through its board or a committee of the board set measurable objectives for achieving gender diversity in the composition of its board, senior executives and workforce generally; and c. disclose in relation to each reporting period: i. the measurable objectives set for that period to achieve gender diversity; ii. the entity's progress towards achieving those objectives; and iii. either: a. the respective proportions of men and women on the board, in senior executive positions and across the whole workforce (including how the entity has defined "senior executive" for these purposes); or b. if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	The Company has adopted a Diversity Policy. The Company's Diversity Policy requires the Board to establish measurable objectives to assist the Company in achieving gender diversity. The Company does not believe it is appropriate to establish a quota system for measuring gender diversity, and indeed such a quota system could itself lead to discrimination. Management undertakes monitoring in line with the Corporate Governance Council Recommendations and reports to the Board regularly as to how the business is positioned with respect to diversity. As at 30 June 2021, there were 58 females employed representing 19% of total employees, including 2 women as part of the executive team. The Tesserent board has a female Director, following the appointment of Megan Haas in January 2021.

Corporate Governance Statement

continued

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
1.6	A listed entity should: a. have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and b. disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.	The Company has adopted a Board and Senior Executive Evaluation Policy. A Non-Executive Director will be responsible for the performance evaluation of the Chairman. The process for evaluating the performance of the Board as a whole is the responsibility of the Board under the direction of the Chairman. The Chairman is in charge of conducting individual Director evaluations.
1.7	A listed entity should: a. have and disclose a process for evaluating the performance of its senior executives at least once every reporting period; and b. disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.	The Company has adopted a Board and Senior Executive Evaluation Policy. The Co-Chief Executive Officers are subject to annual performance evaluation by the Board. All senior executives of the Company are subject to annual performance evaluations by the Co-CEOs. A performance evaluation was undertaken for each of the Co-CEOs during the reporting period.
2.1	The board of a listed entity should: a. have a nomination committee which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or b. if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	The Company previously had a Nominations and Remuneration Committee. During the year ended 30 June 2020, the Board suspended the operations of the Committee as it was determined that the Committee was unnecessary given the size of the Board and the Company's operations. The Board as a whole undertakes the role of the Committee as set out in its Charter.
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership.	The Board skills matrix is set out in the following section.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
2.3	A listed entity should disclose: a. the names of the directors considered by the board to be independent directors; b. if a director has an interest, position or relationship of the type described above but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position or relationship in question and an explanation of why the board is of that opinion; and b. the length of service of each director	The Board considers that Megan Haas and Greg Baxter are independent directors. The Board considers that Geoff Lord does not meet the ASX Corporate Governance Council definition of Independent Director given his significant holding of Tesserent securities. The Board considers that Julian Challingsworth and Kurt Hansen are not independent directors given they are employees of the Company. The date of appointment of each director is disclosed in details of each director in the Directors' Report section of the Annual Report.
2.4	A majority of the board of a listed entity should be independent directors.	The majority of the Board are not independent Directors for the ASX purposes.
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	The roles of the Chairman and CEO are exercised by separate individuals. The Chairman is not considered to be an independent Director for ASX purposes.
2.6	A listed entity should have a program for inducting new directors and for periodically reviewing whether there is a need for existing directors to undertake professional development to maintain the skills and knowledge needed to perform their role as directors effectively.	The Company does not have a formal program for inducting new Directors and providing appropriate professional development opportunities. The induction process for each Director is tailored based on the background and needs of that incoming director.
3.1	A listed entity should articulate and disclose its values.	The Company's values are disclosed in detail within the Board Charter which is published on the Company's website.
3.2	A listed entity should: a. have and disclose a code of conduct for its directors, senior executives and employees; and b. ensure that the board or a committee of the board is informed of any material breaches of that code.	The Company has adopted a Code of Conduct which applies to all Directors, officers, employees, contractors or consultants of the Company as well as a Trading Policy. Each of these has been prepared having regard to the Recommendations.
3.3	A listed entity should: a. have and disclose a whistle-blower policy; and b. ensure that the board or a committee of the board is informed of any material incidents reported under that policy.	The company complies with this Recommendation.
3.4	A listed entity should: a. have and disclose an anti-bribery and corruption policy; and b. ensure that the board or a committee of the board is informed of any material breaches of that policy.	The Company complies with this Recommendation.

Corporate Governance Statement

continued

<table>
<tr><th colspan="2">RECOMMENDATION</th><th>COMPANY'S CURRENT PRACTICE</th></tr>
<tr><td>4.1</td><td>The board of a listed entity should:
a. have an audit committee which:
i. has at least three members, all of whom are nonexecutive directors and a majority of whom are independent directors; and
ii. is chaired by an independent director, who is not the chair of the board, and disclose:
iii. the charter of the committee;
iv. the relevant qualifications and experience of the members of the committee; and
v. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
b. if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</td><td>The Company re-instated the Audit and Risk Committee (ARC) following the appointment of Megan Haas as an independent director in January 2021.
The committee comprises the three non-executive directors and is chaired by independent director Megan Haas.
The ARC met three times in FY21, following its re-instatement each of which was attended by all three non-executive directors.
The Chair of the ARC also met separately with the external Auditor of the Group.</td></tr>
<tr><td>4.2</td><td>The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</td><td>The Company complies with this Recommendation.</td></tr>
<tr><td>4.3</td><td>A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor.</td><td>The Company has established a Disclosure Team, which reviews all periodical corporate reports and announcements before they are disclosed to the market. The composition of the Disclosure Team and the verification and approval process for market release is outlined in the Company's Continuous Disclosure Policy, which is published on the Company's website.</td></tr>
<tr><td>5.1</td><td>A listed entity should have and disclose a written policy for complying with its continuous disclosure obligations under listing rule 3.1.</td><td>The Company is committed to providing timely and balanced disclosure to the market in accordance with its Continuous Disclosure Policy.</td></tr>
</table>

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
5.2	A listed entity should ensure that its board receives copies of all material market announcements promptly after they have been made.	The Company complies with this Recommendation.
5.3	A listed entity that gives a new and substantive investor or analyst presentation should release a copy of the presentation materials on the ASX Market Announcements Platform ahead of the presentation.	The Company complies with this Recommendation.
6.1	A listed entity should provide information about itself and its governance to investors via its website.	The Company has a dedicated corporate governance information section on its website.
6.2	A listed entity should have an investor relations program that facilitates effective two-way communication with investors.	The Company has adopted a Shareholder Communications Policy for Shareholders wishing to communicate with the Board.
6.3	A listed entity should disclose how it facilitates and encourages participation at meetings of security holders.	All Shareholders are invited to attend the Company's annual meeting, either in person or by representative. The Board regards the annual meeting as an excellent forum in which to discuss issues relevant to the Company and accordingly encourages full participation by Shareholders. Shareholders have an opportunity to submit questions to the Board and to the Company's auditor.
6.4	A listed entity should ensure that all substantive resolutions at a meeting of security holders are decided by a poll rather than by a show of hands.	The Company complies with this Recommendation.
6.5	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	The Company seeks to recognise numerous modes of communication, including electronic communication, to ensure that its communication with Shareholders is frequent, clear and accessible.

Corporate Governance Statement

continued

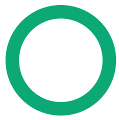
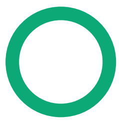
RECOMMENDATION		COMPANY'S CURRENT PRACTICE
7.1	The board of a listed entity should: a. have a committee or committees to oversee risk, each of which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or b. if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	The Company re-instated the Audit and Risk Committee (ARC) following the appointment of Megan Haas as an independent director in January 2021. The committee comprises the three non-executive directors and is chaired by independent director Megan Haas. The ARC met three times in FY21, following its re-instatement each of which was attended by all three non-executive directors. The Chair of the ARC also met separately with the external Auditor of the Group.
7.2	The board or a committee of the board should: a. review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and that the entity is operating with due regard to the risk appetite set by the board; and b. disclose, in relation to each reporting period, whether such a review has taken place.	The Company has substantive risk processes across the business – however these are being reviewed in the context of the current reorganisation (announced to the market on 11 August 2021). The Company's updated risk framework will be formalised at completion of this operational reorganisation.
7.3	A listed entity should disclose: a. if it has an internal audit function, how the function is structured and what role it performs; or b. if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its governance, risk management and internal control processes.	The Company does not have an internal audit function established. Management designs and implement risk management and internal control systems to manage the Company's material business risks and to report to the Board on whether those risks are being managed effectively.
7.4	A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.	For the reporting period, the Company has not identified any material exposures to environmental or social risks, other than COVID – for which the Company has documented a COVID-safe plan. The Board is reviewing this policy in respect of an appropriate position on vaccination and return to work.

RECOMMENDATION		COMPANY'S CURRENT PRACTICE
8.1	The board of a listed entity should: a. have a remuneration committee which: i. has at least three members, a majority of whom are independent directors; and ii. is chaired by an independent director, and disclose: iii. the charter of the committee; iv. the members of the committee; and v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or b. if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	The Company has presently suspended operation of its Nominations and Remuneration Committee. During the period the full Board undertook the role of the Committee as set out in its Charter.
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	The policies and practices regarding remuneration of Directors is set out in the Selection and Appointment of New Directors Policy. Full details of Director remuneration is included in annual reports.
8.3	A listed entity which has an equity-based remuneration scheme should: a. have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and b. disclose that policy or a summary of it.	While the Company has issued options to Independent Directors and some senior executives. During the year ended 30 June 2021 (initiated in October 2020), the Company established a new Employee Share Option Plan (ESOP) designed to align key employees' interests with those of the shareholders and give the company a significant advantage in attracting and retaining talent over TNT's non-listed cyber competitors.
9.1	A listed entity with a director who does not speak the language in which board or security holder meetings are held or key corporate documents are written should disclose the processes it has in place to ensure the director understands and can contribute to the discussions at those meetings and understands and can discharge their obligations in relation to those documents.	This recommendation is not applicable to the Company given the current composition of the Board of Directors.
9.2	A listed entity established outside Australia should ensure that meetings of security holders are held at a reasonable place and time.	This recommendation is not applicable to the Company.
9.3	A listed entity established outside Australia, and an externally managed listed entity that has an AGM, should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	This recommendation is not applicable to the Company

Corporate Governance Statement

continued

BOARD SKILLS/EXPERIENCE MATRIX

KEY SKILL	DEMONSTRATED BY ATTRIBUTES	
Cyber industry experience	Sound knowledge of the structure, operations and opportunities in the Cyber Security industry.	
Technology and digital innovation	Experience in developing setting and implementing digital innovation and technology strategies.	
Risk management	Knowledge, background and experience in balancing commercial imperatives with agreed risk appetites, building organisational risk culture	
Financial acumen	Proficiency in finance, including in financial accounting and reporting and capital management, including an ability to probe the adequacy of financial and risk controls	
Strategy	Demonstrated experience in developing and implementing strategic opportunities to create long term value for shareholders.	
M&A experience	Experience in identifying executing and integrating mergers and acquisitions to create long term value for shareholders.	
ASX board and other relevant board experience	Exposure to relevant disclosure regimes, understanding of contemporary corporate governance practices.	
Executive leadership	Experience in appointing and evaluating senior management, executive planning and monitoring corporate performance	
International markets and trade	Experience in working in an organisation with global operations and understanding of political and regulatory requirements plus appreciation of market opportunities	
Sustainability	Experience related to environmental, social and community responsibility	

The Directors of Tesserent Limited (the "Company") submit herewith the Directors' Report on the Company for the financial year ended 30 June 2021

Directors' Report

for the year ended 30 June 2021

The Directors of Tesserent Limited (the "Company") submit herewith the Directors' Report on the Company for the financial year ended 30 June 2021.

To comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

DIRECTORS

Details of the Directors of the Company in office at any time during or since the end of the financial year and at the date of this report are:

Geoff Lord	Non-Executive Chairman (Appointed 10 January 2020)
Qualifications:	MBA (Distinction) (Melbourne), BEc (Hons) (Monash), FIDA, ASIA
Experience:	Geoff is the Founder and CEO of the Belgravia Group, a privately held investment group which since being established in 1990 has grown to employ more than 10,000 people in businesses spanning sports and sports technologies, fitness, leisure, sports camps, clothing and more. In addition, Geoff is the former Founder and Chairman of UXC Limited, one of Australia's largest IT services businesses. After being founded in 2002 as a $5m business, UXC grew under Geoff's leadership to be acquired in 2016 by NYSE-listed Computer Sciences Corporation (now DXC Technology) in a deal valued at A$427.6m. Other board positions held by Geoff include Director Melbourne Business School, founding Director of SME finance business Judo Bank and Chairman of Salvest. He has also shown a significant passion for sports and clubs, having served as Chairman of Hawthorn Football Club and Melbourne Victory. Geoff is the largest shareholder in Tesserent and previously acted as an advisor to the board since early 2019.
Other Directorships in listed entities:	None
Former Directorships in listed entities in last 3 years:	None
Interests in Shares and options:	99,258,956 ordinary shares 8,882,500 share options 6,000,000 5 year call options

DIRECTORS (CONTINUED)

Julian Challingsworth	Co-Managing Director and Co-Chief Executive Officer (Appointed 1 August 2018)
Qualifications:	Bachelor of Business, MSc, CA, FCPA , GAICD
Experience:	With a strong professional services and corporate finance background, Julian has a Masters of Organisational Consulting from Ashridge Business School (UK), a Graduate Diploma in IT, Swinburne University (Aust) and a Bachelor of Business, Accounting, RMIT (Aust). Julian is a member of Chartered Accountants (CAANZ), Fellow Australian CPA (FCPA) and a Graduate, Australian Institute of Company Directors (GAICD). Julian joined Tesserent after serving as Managing Director and a Partner of The Litmus Group for over 10 years and a board member of PPB Advisory. In addition to advising over 20 organisations on growth acceleration strategies in Australia, Asia and Europe, Julian was a key driver in growing Litmus in Australia and internationally before it was acquired by PPB Advisory. Julian was a director or Cordence Worldwide, a global consulting partnership with 2,800 consultants across 60+ locations. Julian worked with the international team to develop sales and growth strategies for the 8 member firms.
Other Directorships in listed entities:	None
Former Directorships in listed entities in last 3 years:	None
Interests in Shares and options:	14,000,000 ordinary shares
Kurt Hansen	Co-Managing Director and Co-Chief Executive Officer (Appointed 12 December 2019)
Qualifications:	Grad. Dip. Engineering
Experience:	Kurt has over 30 years of IT industry experience driving sales and delivery transformation and impressive business growth across many IT and Cybersecurity organisations in Australia and New Zealand. Kurt was the CEO at Pure Security where, as part of the PS&C Group he integrated four Security businesses following their acquisition and listing onto the ASX. Previous roles include executive, senior management and operational positions at Check Point Software Technologies, F5 Networks, AirData, Symbol Technologies, Telstra Wholesale, Cisco Systems, and Ericsson. Prior to commencing his corporate career, Kurt joined the Australian Army as an electronic trainee, later becoming a commission officer and finishing his military career in Royal Australian Signal Corp with the rank of Captain. He holds a Diploma of Engineering from Swinburne Institute of Technology.
Other Directorships in listed entities:	None
Former Directorships in listed entities in last 3 years:	None
Interests in Shares and options:	12,939,574 ordinary shares

Directors' Report

for the year ended 30 June 2021

DIRECTORS (CONTINUED)

Gregory Baxter	Non-Executive Director (Appointed 16 November 2016)
Qualifications:	BSc MBA
Experience:	Board member since 2015. Greg is currently Chief Transformation Officer Hewlett Packard, leading HP's IT, Software, Data & AI, and Transformation Management organizations. Greg was previously Chief Digital Officer at MetLife and Global Head of Digital at Citibank, leading Citi's digital transformation across businesses and geographies. Greg specialises in the development and delivery of digital strategy, corporate innovation and business transformation. He has held senior business, consulting and technology roles across Asia, Europe and North America, with a track record of high- impact business results. Previously Gregory was a Partner and U.K. Board member at Booz & Company (formerly Booz Allen Hamilton), where he held leadership roles across the financial services, public sector and digital practices. Gregory is a council (board) member of Chatham House (Royal Institute of International Affairs), a leading international affairs think tank. He holds a BSc from Monash University and an MBA from the University of Melbourne and has been a guest lecturer on strategy at the University of Oxford, New York University, and American University (Washington).
Other Directorships in listed entities:	None
Former Directorships in listed entities in last 3 years:	None
Interests in Shares and options:	4,120,327 ordinary shares 4,500,000 unlisted share options
Megan Haas	Non-Executive Director (Appointed 19 January 2021)
Qualifications:	BBUS Accountancy & Information Systems (RMIT), GAICD.
Experience:	Megan's core competencies are centred around cyber risk, governance, technology and operational processes developed over 30+ years both in Australia and internationally. Formerly a PwC Cyber Security & Forensic Services Partner, Megan has worked with organisations across international borders and industries including pharmaceutical, gaming, retail, manufacturing, government, media, financial services and communications. Megan has a BBUS Accountancy & Information Systems (RMIT), GAICD. Megan's other Directorships include: Note Printing Australia (audit committee), RMIT University (Council member), Development Victoria (Chairperson) and the Suburban Rail Loop Authority.
Interests in Shares and options:	3,000,000 unlisted share options

Directors' Report

for the year ended 30 June 2021

DIRECTORS (CONTINUED)

Patrick Flannigan	Non-Executive Director (Appointed 20 January 2020, **retired 19 January 2021**)
Qualifications:	BBus. (Victoria University), FAIDC, FAIM
Interests in Shares and options:	12,625,000 ordinary shares
	6,000,000 unlisted share options

COMPANY SECRETARY

Oliver Carton	Company Secretary
Qualifications:	BJurisLLB. Appointed as Company Secretary on 6 May 2015.
Experience:	Oliver Carton is a lawyer with over 30 years' experience in a variety of corporate roles. He is currently a director or company secretary of a number of listed, unlisted and not for profit entities such as the Melbourne Symphony Orchestra and Australian Mines Ltd (ASX: AUZ). He currently runs his own consulting business and was previously a Director of the Chartered Accounting firm KPMG. Prior to that, he was a senior legal officer with ASIC.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors during the year ended 30 June 2021 and the number of meetings attended by each Director.

		Full Board		Audit and Risk Committee Meetings	
Director	**Role**	**Entitled to attend**	**Attended**	**Entitled to attend**	**Attended**
Geoff Lord	Non-Executive Director	13	13	3	3
Julian Challingsworth	Executive Director	13	12	*(by invitation)*	1
Kurt Hansen	Executive Director	13	13	*(by invitation)*	1
Gregory Baxter	Non-Executive Director	13	13	3	2
Patrick Flannigan (resigned 19 January 2021)	Non-Executive Director	5	5	n/a	n/a
Megan Haas (appointed 19 January 2021)	Non-Executive Director	6	6	3	3

PRINCIPAL ACTIVITIES

Tesserent provides Cyber Security consulting, cloud and managed services to a wide range of Australian and international customers, including education providers, corporate enterprises, and government customers.

These services are provided on the basis of consulting contracts, software implementation contracts and a subscription fees, either as one off engagements, longer term projects or as monthly or annual fees.

OPERATING RESULTS AND FINANCIAL POSITION

The Group recorded a loss after tax of $4.5m for the year ended 30 June 2021 (2020: $7.3m loss). The Group incurred significant expenditure in completing controlling acquisitions of six companies, plus two 25% investments in entities classified as associates.

The acquisitions resulted in an increase in total assets to $181.1m including Goodwill of $83.3m and Intangible assets (including acquired Customer contracts and relationships) of $29.0m.

During the year the Group issued equity of $73.5m after costs, as well as converting notes of $6.7m before costs to provide working capital and capital for the acquisitions. The Group also secured additional financing facilities of $30 million (to bring total long-term debt to $35m) to provide working capital and cash reserves to complete acquisitions. The two facilities are split into two tranches of $15m and $20m, and mature in August 2024 and April 2025 respectively. Interest is charged at 8.9% and 8.5% on Facility 1 and Facility 2, respectively.

Directors' Report

for the year ended 30 June 2021

As a result of the acquisitions and the equity, the Group's net assets at 30 June 2021 were $87.6m.

More detailed discussion of the Group's results are provided in the Review of Operations preceding the Directors Report.

CLOSING SHARE PRICE

	Closing share price $
30 June 2017	0.092
30 June 2018	0.060
30 June 2019	0.045
30 June 2020	0.080
30 June 2021	0.235

A high of $0.44 was reached on 8 January 2021

LOSS PER SHARE

Loss per share	2021 cents	2020 cents
Basic loss per share	0.52	2.02
Diluted loss per share	0.52	2.02

As the Group made a loss for the year ended 30 June 2021, potential ordinary shares, being options or performance rights to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

DIVIDENDS

During the year, the Company did not pay, or propose to pay, any dividends.

SIGNIFICANT CHANGE IN STATE OF AFFAIRS

On 28 July 2020, the Group signed an agreement with its existing debt provider Pure Asset Management ('PAM') to secure a new debt facility for $15m, to replace the existing facility of $5m. The term of this facility is 48 months (loan repayable on 31/8/24 and the nominal borrowing rate for this facility is 8.9%). The facility has 43.7m warrants attached to it, which have independently valued at $4.9m –accounted for under the effective interest rate method and amortising over the life of the loan.

On 4 August 2020, the Group completed the acquisition of Seer Security Pty Ltd. Seer Security provides specialist high-security services and delivery capabilities to Australian Federal Government departments and agencies including Defence and Law Enforcement. Tesserent acquired 100% of the ordinary shares of Seer Security Pty Ltd for consideration of $20,636,811 million, with $6,982,965 cash and $13,653,846 in issued share capital, being 76,923,077 shares issued at a fair value of $0.1775 per share. In addition, a cash payment of $1,383,158 was made post-completion as a working capital adjustment.

On 11 September 2020, the Group completed the acquisition of Airloom Holdings Pty Ltd. Airloom is a Sydney-based cybersecurity firm with a focus on security architecture and cloud migration services. Tesserent acquired 100% of the ordinary shares of Airloom Holdings Pty Ltd for consideration of $23,184,758, with $12,298,323 cash and $10,886,435 in issued share capital, being 39,950,221 shares issued at fair value of $0.2725 per share. Total consideration for the acquisition also includes estimated earnout payments based upon forecast performance of the business.

On 11 September 2020, the Group completed the acquisition of Ludus Information Security Pty Ltd. Ludus Cybersecurity cemented Tesserent's standing as the largest end-to-end cybersecurity services provider in the Canberra market. Tesserent acquired 100% of the ordinary shares of Ludus Information Security Pty Ltd for consideration of $2,094,224, with $1,006,324 cash and $1,087,900 in issued share capital, being 4,440,410 shares issued at a fair value of $0.245 per share. Total consideration for the acquisition also includes $0.3m in estimated earnout payments based upon forecast performance of the business.

SIGNIFICANT CHANGE IN STATE OF AFFAIRS (CONTINUED)

During September 2020, the Group launched a new Employee Share Option Plan (ESOP) in order to further engage key employees and align their interests with the Tesserent shareholders. The ESOP plan is also used strategically to attract and retain key talent to the Tesserent, giving the Group a recruitment advantage over its non-listed competitors.

The ESOP plan, which is issued under the parameters of *ASIC Class Order CO 14/1000* was approved by the Board on 16 September 2020, and allows the Group to issue options and performance rights up to a limit of 5% of share capital.

The ESOP Plan allows for the grant of options in two tranches:

Tranche 1 – options with a three year expiry, vesting immediately and an exercise price of $0.28

Tranche 2 – options with a three year expiry, vesting 12 months from ESOP launch date and an exercise price of $0.35

The valuation and cost of issuing options under the ESOP scheme is determined using a Black-Scholes Pricing model and detailed in Note 31 to the financial statements.

On 28 October 2020, the Group completed the acquisition of iQ3 Pty Ltd. iQ3 provides Secure Cloud Services, materially complementing Tesserent's Cyber 360 strategy and represented a significant step forward in Tesserent's ability to provide a full end-to-end cyber service. iQ3 also has a significant presence in the NSW Government. Tesserent acquired 100% of the ordinary shares of iQ3 Pty Ltd for consideration of $18,086,895 with $8,634,650 cash and $9,513,336 in issued share capital, being 34,593,950 shares at fair value of $0.275 per share. The cash consideration has been split, with $4,317,325 paid on completion and four deferred quarterly payments of $1,079,331, payable over a 12-month period after completion.

On 12 February 2021, the Group completed the acquisition of New Zealand business Lateral Security (IT) Services Limited. Lateral Security is a cybersecurity consulting firm headquartered in New Zealand and specialising in advisory, security testing, incident response and managed services. Tesserent acquired 100% of the ordinary shares of New Zealand based Lateral Security (IT) Services Limited for consideration of NZ$8,594,502 (A$8.253m), with A$4,163,883 cash, A$2,055,197 in issued share capital, being 5,871,990 shares issued at a fair value of $0.350 per share and a provision for a further A$2,034,204 in share capital being 5,812,014 shares issued at a fair value of $0.350 per share in relation to in estimated earnout payments based upon forecast performance of the business.

On 19 April 2021, the Group signed a further agreement with Pure Asset Management ('PAM') to secure a second debt facility for $20m (in addition to the existing facility of $15m described above). The term of this facility is 48 months (loan repayable on 30/4/25) and the nominal borrowing rate for this facility is 8.5%. The facility has 44.4m warrants attached to it, which have been independently valued at $4.5m –accounted for under the effective interest rate method and amortising over the life of the loan.

On 28 April 2021, the Group completed the acquisition of Secure Logic Pty Ltd. Secure Logic is a leading Australian Managed Security services firm that sees further strengthening of Tesserent's presence in State and Federal Government departments and agencies. Tesserent acquired 100% of the ordinary shares of Secure Logic Pty Ltd for consideration of $17,904,336, with $8,526,857 cash and $9,377,479 in issued share capital, being 42,145,974 shares issued at a fair value of $0.2225 per share.

AFTER BALANCE DATE EVENTS

The company notes three subsequent events following 30 June 2021 reporting date, being the announcement of its *brand and business unit integration strategy*, the signing of a share purchase agreement for the *acquisition of Loop Secure Pty Ltd* and the completion of a capital raise, as outlined below.

Announcement of brand and business unit integration strategy

On 11 August 2021, Tesserent announced a brand and business unit integration strategy to drive growth in the business, such that, moving forward, TNT commercial will go to market from a single entity with a single customer-facing brand, Tesserent, that incorporates services from TNT's existing business units.

The re-organisation of the go-to-market approach also reflects the evolution of the Group as it integrates the businesses acquired during the last 18 months, and is consistent with the basis in which the Group's chief operating decision makers manage the business and assess performance.

The Company's new go-to-market approach will be accompanied by a new logo and branding – which was subsequently released to the market on 16 September 2021.

Directors' Report

for the year ended 30 June 2021

AFTER BALANCE DATE EVENTS (CONTINUED)

Acquisition of Loop Secure Pty Ltd

Tesserent announced to the market, the acquisition of Loop Secure Pty Ltd following the signing of a Share Purchase Agreement executed between both parties on the 18 August 2021.

Under the terms of the Share Purchase Agreement, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Loop Secure Pty Ltd for consideration of $13.5m, with $7m initial payment of cash and $4.5m in issued share capital, based on 15,946,137 shares at a based on VWAP of $0.2822 per share. Two further deferred consideration payments of $1m are payable six months and twelve months following completion date. Final consideration is also subject to net debt and working capital adjustments and an earnout payment if the business exceeds agree future targets.

The acquisition of Loop Secure is expected to complete by the end of September 2021.

Capital Raise

On 24 September 2021, the Group launched and completed a capital raise – via an equity placement with a number of institutional investors, raising $25m to fund future identified acquisitions. An equity capital raise was chosen to optimise the capital structure of the Group and has also had the impact of enhancing Tesserent's visibility in the ASX market.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Tessrent's strategy includes continued focus on the following areas:

- Expanding the number of Channel partners in Australia and internationally,
- Increasing the number of direct sales to organisations, in Australia and internationally, through increased sales and marketing,
- Assessing strategic acquisition opportunities where they increase the product/service offering or geographical presence of the Group, and
- On-going research and development.

Further information on expected results of operations is included in the Review of Operations preceding the Directors Report.

INDEMNITY AND INSURANCE OF OFFICERS

In accordance with its Constitution, and where permitted under relevant legislation or regulation, the Company indemnifies the Directors and Officers against all liabilities to another person that may arise from their position as Directors or Officers of the Company and its subsidiaries, except if, in the Board's reasonable opinion, the liability arises out of conduct which is fraudulent, criminal, dishonest or a wilful default of the Directors' or Officers' duties. In accordance with the provisions of the *Corporations Act 2001*, the Company has insured the Directors and Officers against liabilities incurred in their role as Directors and Officers of the Company.

The terms of the insurance policy, including the premium, are subject to confidentiality clauses and therefore the Company is prohibited from disclosing the nature of the liabilities covered and the premium paid.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor. During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

ENVIRONMENTAL ISSUES

Tesserent is not subject to any significant environmental regulation under Australian Commonwealth or State law. Tesserent recognises its obligations to its stakeholders (customers, shareholders, employees and the community) to operate in a way that minimises the impact it has on the environment.

SHARES UNDER OPTION

At the date of this report the Company had shares under option and warrants as follows: -

Description	Date of Expiry	Exercise Price	Number on issue	Number escrowed
NED Options	30 Nov 2021	$0.10	500,000	Nil
NED Options	30 Nov 2021	$0.13	500,000	Nil
NED Options	30 Nov 2021	$0.15	500,000	Nil
Call Options	16-Dec-21	$0.08	1,000,000	Nil
Employee Options	1 Mar 2022	$0.10	300,000	Nil
Converting Note Options	1 Oct 2022	$0.10	26,770,000	Nil
Converting Note Options	1 Oct 2022	$0.10	3,832,500	Nil
Converting Note Options	1 Oct 2022	$0.10	3,000,000	Nil
Employee Options	29 Nov 2022	$0.125	1,000,000	Nil
Warrants issued to Pure Asset Management Pty Ltd	6 Dec 2022	$0.080	7,500,000	Nil
Employee Options	2 Nov 2023	$0.35	12,771,500	Nil
Employee Options	2 Nov 2023	$0.28	12,200,000	Nil
Employee Options	1 Jan 2024	$0.35	3,000,000	Nil
Employee Options	1 Jan 2024	$0.28	3,750,000	Nil
Employee Options	6 Apr 2024	$0.35	1,250,000	Nil
Employee Options	6 Apr 2024	$0.28	1,500,000	Nil
Employee Options	20 Apr 2024	$0.35	1,670,000	Nil
Employee Options	20 Apr 2024	$0.28	1,670,000	Nil
Acquisition Warrants	18 Sep 2024	$0.120	19,250,001	Nil
Warrants issued to Pure Asset Management Pty Ltd	18 Sep 2024	$0.120	17,500,000	Nil
Acquisition Warrants	7 May 2025	$0.450	30,555,556	Nil
Warrants issued to Pure Asset Management Pty Ltd	7 May 2025	$0.450	13,888,889	Nil
NED Options	21 Sep 2025	$0.248	9,000,000	Nil
			172,908,446	

Share options do not provide the holder with the same rights as shareholders. Share options do not provide the rights to participate in rights issues, dividends, or enable the holder to vote at General Meetings.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court under Section 327 of the *Corporations Act 2001* to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any proceedings during the year.

Directors' Report

for the year ended 30 June 2021

REMUNERATION REPORT (AUDITED)

The remuneration report, which has been audited, outlines the Director and executive remuneration arrangements for the Company, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

A. Principles Used to Determine the Nature and Amount of Remuneration

The broad principles for determining the nature and amount of remuneration of KMP has historically been agreed by the Board.

An annual review of the Board structure is undertaken by the Board with changes made as deemed appropriate to the size, structure and needs of the Company.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The maximum annual aggregate remuneration is $250,000, not including various payments such as out of pocket expenses and share based payments, and this was set prior to listing via the IPO in 2016.

The Board can obtain professional advice where necessary to ensure that the Group attracts and retains talented and motivated directors and employees who can enhance performance through their contribution and leadership. No external advice regarding remuneration policy was obtained in the current year.

The guiding principles for determining the nature and amount of remuneration for KMP of the Group is as follows:

- Remuneration should include an appropriate mix of fixed and performance-based components,
- Components of remuneration should be understandable, transparent and easy to communicate; and
- Remuneration Committee / Board to review KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The Board sets out to link remuneration polices with the achievement of financial and personal objectives.

Components of remuneration

The Non-executive directors in place during the year agreed to take no cash salary, instead agreeing to take shares and/or options in lieu of director fees. All equity issued to Directors during the year was subject to shareholder approval.

The executive directors and other KMP are remunerated based upon market value of the position and the range of skills and experience they bring to the company and is split between fixed and performance linked remuneration.

Fixed remuneration consists of base remuneration and employer contributions to superannuation funds.

Performance linked remuneration includes short-term incentives and is designed to reward the Co-Chief Executive Officers, Managing Directors (MD) and other KMP's for meeting and exceeding their financial and personal objectives.

The Board has the responsibility of setting the Key Performance Indicators (KPI's) for the Co-CEOs and have input to the KPI's for the executives. KPI's generally include measures relating to the Group, the relevant business unit and the individual. At the conclusion of the year the Board will assess the performance of the Co-CEOs, and the Co-CEOs assesses the performance of the individual executives against their targets. The Co-CEOs' recommendations are presented to the Board for approval.

The Board, at its discretion, may pay cash bonuses or bonuses settled in shares or options, to Executive Directors or other KMPs.

The Board has implemented a Director Option Plan. The Option Plan is aimed at incentivising the Directors in retaining key strategic skills. The Director Plan currently covers Executive Directors.

Engagement of remuneration consultants

During the year, the Company did not engage any remuneration consultants.

Voting and comments made at the Company's 20 November 2020 Annual General Meeting ('AGM')

At the 20 November 2020 AGM, 96.10% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2020. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

REMUNERATION REPORT (AUDITED) (CONTINUED)

B. Details of Remuneration

Details of the remuneration of the Directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the Company) are set out in the tables on the following pages.

Key Management Personnel - Directors and Executives

The key management personnel ("KMP") of the Company consisted of the following Directors and executives during the year:

Directors	Position
Geoff Lord	Non-Executive Chairman
Gregory Baxter	Non-Executive Director
Patrick Flannigan	Non-Executive Director (Appointed 20 January 2020, Retired 19 January 2021)
Megan Haas	Non-Executive Director (Appointed 19 January 2021)
Julian Challingsworth	Co-Chief Executive Officer and Director
Kurt Hansen	Co-Chief Executive Officer and Director

Other Key Management Personnel	Position
Stefan Scheffer	Chief Financial Officer (Resigned 30 October 2020)
Peter Fearns	Chief Financial Officer (Commenced 9 November 2020, resigned 23 April 2021)
James Jones	Chief Financial Officer (Commenced 30 April 2021)
George Katavic	Managing Director, North
Chris Hagios	Managing Director, Airloom (Appointed on acquisition 11 September 2020)
Craig Humphreys	Managing Director, iQ3 (Appointed on acquisition 11 November 2020)
Deepak Singh	Managing Director, Secure Logic (Appointed on acquisition 1 May 2021)

Key Management Personnel (KMPs) – Service Agreements

Employment contracts – J Challingsworth

The key terms of the contract are as follows:

- Position of Co-CEO Tesserent Group, amended employment contract commencing 1 October 2020
- Salary of $350,000 per annum, plus superannuation
- Discretionary STI payable in cash at the discretion of the Board
- Agreement can be terminated in writing by Mr Challingsworth providing three months' notice
- Agreement can be terminated in writing by the Company providing twelve months' notice
- Performance rights as issued shares – refer to *Share Based Compensation* section in remuneration report

Employment contracts – K Hansen

The key terms of the contract are as follows:

- Position of Co-CEO Tesserent Group, contract commencing 12 December 2019
- Salary of $335,616 per annum, plus superannuation
- Sign-on bonus of 2,000,000 options in Tesserent Limited, granted in a prior period and escrowed for 180 days from the date of issue
- Agreement can be terminated in writing by Mr Hansen providing six months' notice
- Agreement can be determined in writing by the Company providing nine months' notice
- Performance rights as issued shares – refer to *Share Based Compensation* section in remuneration report

Directors' Report

for the year ended 30 June 2021

REMUNERATION REPORT (AUDITED) (CONTINUED)

Employment contracts – J Jones

The key terms of the contract are as follows:

- Position of Group CFO, contract commencing 30 April 2021
- Salary of $278,305 per annum, plus superannuation and other benefits
- Short term incentive based on the following:
  - 10% of the base remuneration (incl. super) with KPI's to be agreed
  - 1,000,000 TNT share options at $0.24 which vest following six-month probationary period
  - The employee is eligible for the Employee Share Options Plan (ESOP) provided separately
- Agreement can be terminated in writing by either party providing three months' notice

Employment contracts – G Katavic

The key terms of the contract are as follows:

- Position of Managing Director – North, contract commencing 23 March 2020
- Salary of $273,972 per annum, plus superannuation, and other benefits
- Agreement can be terminated in writing by either party providing four weeks' notice

Employment contracts – C Hagios

The key terms of the contract are as follows:

- Position of Managing Director - Airloom, existing employment contract commenced 15 March 2019
- Salary of $280,000 per annum, plus superannuation and other benefits
- Car Allowance of $42,000 per annum
- Performance Bonus, bonus payable half yearly based upon half year EBIT of the Company x 5%, where the half year EBIT of the company means the earnings before interest and tax of the Company
- Agreement can be terminated in writing by either party providing six months' notice

Employment contracts – C Humphreys

The key terms of the contract are as follows:

- Position of CEO – iQ3, contract commencing 11 November 2020
- Base Salary of $100,000 per annum, plus superannuation and other benefits
- Monthly Performance payments – 3% of monthly Gross profit generated in the previous calendar month
- Additional benefits – School fees, plus any work-related expenses such as travel, phone and internet
- Agreement can be terminated in writing by either party providing one months' notice

Employment contracts – D Singh

The key terms of the contract are as follows:

- Position of Managing Partner - Secure Logic, contract commencing 01 May 2021
- Salary of $273,750 per annum inclusive of superannuation, and other benefits
- Retention Bonus of $50,000 to be paid on 1 July 2022
- Eligible for an Annual Bonus amount of $75,000 based on agreed KPI's and performance against budget
- The Employee is eligible for the Employee Share Options Plan (ESOP) provided separately
- Agreement can be terminated in writing by either party providing four weeks' notice

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of Remuneration for the year ended 30 June 2021

The individual remuneration for key management personnel of the Company during the year was as follows:

	Short term employment benefits		Long term benefits	Post employment	Equity based payments		
Year ended 30 June 2021	Salary and Fees $	Bonus $	Long-Service Leave $	Superannuation $	Shares $	Options $	Total $
Non-Executive Directors							
G Lord	–	–	–	–	–	172,177	172,177
G Baxter	–	–	–	–	–	86,089	86,089
P Flannigan[1]	–	–	–	–	–	–	–
M Haas[2]	–	–	–	–	–	380,000	380,000
Subtotal	**–**	**–**	**–**	**–**	**–**	**638,266**	**638,266**
Executive Directors							
J Challingsworth	320,969	–	1,661	29,818	–	87,019	439,467
K Hansen	335,616	–	21,721	31,834	–	87,019	476,190
Subtotal	**656,586**	**–**	**23,382**	**61,651**	**–**	**174,038**	**915,657**
Other KMPs							
S Scheffer[3]	113,288	–	–	8,986	28,738	–	151,012
P Fearns[4]	104,737	–	–	9,215	–	–	113,952
J Jones[5]	47,438	–	–	3,698	–	41,399	92,535
G Katavic	270,848	–	–	25,000	–	–	295,848
C Hagios[6]	268,333	197,373	–	18,349	–	–	484,055
C Humphreys[7]	66,668	255,610	19,100	17,412	–	–	358,789
D Singh[8]	41,668	–	–	3,616	–	193,688	238,972
Subtotal	**912,981**	**452,983**	**19,100**	**86,275**	**28,738**	**235,087**	**1,735,163**
Total	**1,569,567**	**452,983**	**42,481**	**147,926**	**28,738**	**1,047,391**	**3,289,086**

1 In August 2020, 3m options were awarded as part of the shareholder approved non-executive director remuneration package. These options lapsed when P Flannigan retired on 19 January 2021.
2 Appointed on 19 January 2021.
3 Resigned on 30 October 2020.
4 Commenced 9 November 2020, finished 23 April 2021.
5 Commenced 30 April 2021.
6 Appointed on acquisition 11 September 2020.
7 Appointed on acquisition 11 November 2020.
8 Appointed on acquisition 1 May 2021.

Directors' Report

for the year ended 30 June 2021

REMUNERATION REPORT (AUDITED) (CONTINUED)

Details of Remuneration for the year ended 30 June 2020

The individual remuneration for key management personnel of the Company during the period was as follows:

	Short term employment benefits		Long term benefits	Post employment	Equity based payments		
Year ended 30 June 2020	**Salary and Fees $**	**Cash Bonus $**	**Long-Service Leave $**	**Superannuation $**	**Shares $**	**Options $**	**Total $**
Non-Executive Directors							
G Lord[1]	–	–	–	–	–	–	–
R Langford[2]	45,000	–	–	–	150,000	19,633	214,633
G Baxter[3]	–	–	–	–	–	–	–
P Flannigan[4]	–	–	–	–	–	–	–
S Bertamini[5]	–	–	–	–	–	–	
S Caswell[6]	12,500	–	–	–	13,500	–	26,000
Subtotal	**57,500**	**–**	**–**	**–**	**163,500**	**19,633**	**240,633**
Executive Directors							
J Challingsworth	199,883	–	3,764	18,115	142,900	157,219	521,881
K Hansen[7]	332,953	200,000	16,127	50,630	97,400	37,481	734,591
Subtotal	**532,836**	**200,000**	**19,891**	**68,745**	**240,300**	**194,700**	**1,256,472**
Other KMPs							
S Scheffer	199,734	–	4,297	18,861	22,500	–	245,392
M Glennan[8]	304,386	–	–	24,702	86,500	11,601	427,189
R Miller[9]	158,347	–	–	14,279	–	–	172,626
M Phillips[10]	90,055	–	–	7,120	–	–	97,175
G Katavic[11]	68,484	–	10,997	6,507	–	–	85,988
R Silver[12]	235,965	–	–	22,416	–	–	258,381
Subtotal	**1,056,971**	**–**	**15,294**	**93,885**	**109,000**	**11,601**	**1,286,751**
Total	**1,647,307**	**200,000**	**35,185**	**162,630**	**512,800**	**225,934**	**2,783,856**

1 Appointed 10 January 2020. No director fees paid or accrued during the year.
2 Retired 4 December 2019. Salary and fees were settled with the issue of shares and options.
3 No director fees paid or accrued during the year.
4 Appointed 20 January 2020. 3m share options were awarded as director remuneration during the year, however these options lapsed when P Flannigan retired as a director.
5 Retired 29 November 2019. No director fees paid or accrued during the year.
6 Appointed 19 September 2019. Retired 29 November 2019. Salary and fees were settled with the issue of shares and options.
7 Appointed 12 December 2019. Kurt Hansen received a bonus of $200,000 as part of his sign-on fee upon the acquisition of Pure Security Group.
8 Resigned 7 February 2020.
9 Resigned 8 June 2020.
10 Appointed 8 March 2020.
11 Appointed upon acquisition 31 March 2020.
12 Appointed upon acquisition 3 July 2019.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Bonuses included in remuneration

The proportion of remuneration linked to performance and the fixed proportions are as follows:

	2021			2020		
	Fixed remuneration	At risk - STI	At risk - LTI	Fixed remuneration	At risk - STI	At risk - LTI
Non-Executive Directors						
G Lord	–	–	100%	–	–	–
G Baxter	–	–	100%	–	–	–
P Flannigan	–	–	–	–	–	–
M Haas	–	–	100%	n/a	n/a	n/a
R Langford	n/a	n/a	n/a	21%	–	79%
S Bertamini	n/a	n/a	n/a	–	–	–
S Caswell	n/a	n/a	n/a	48%	–	52%
Executive Directors						
J Challingsworth	80%	–	20%	42%	–	58%
K Hansen	82%	–	18%	55%	27%	18%
Other KMPs						
S Scheffer	81%	–	19%	91%	–	9%
P Fearns	100%	–	–	n/a	n/a	n/a
J Jones	55%	–	45%	n/a	n/a	n/a
G Katavic	100%	–	–	100%	–	–
C Hagios	59%	41%	–	n/a	n/a	n/a
C Humphreys	29%	71%	–	n/a	n/a	n/a
D Singh	19%	–	81%	n/a	n/a	n/a
M Glennan	n/a	n/a	n/a	77%	–	23%
R Miller	n/a	n/a	n/a	100%	–	–
M Phillips	n/a	n/a	n/a	100%	–	–
R Silver	n/a	n/a	n/a	100%	–	–

In 2020, Kurt Hansen received a cash bonus as part of his sign-on fee upon the acquisition of Pure Security Pty Ltd.

Directors' Report

for the year ended 30 June 2021

REMUNERATION REPORT (AUDITED) (CONTINUED)

C. Share Based Compensation

Ordinary shares

Details of shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

KMP	Date	No of shares	Weighted average issue price ($)	Value ($)
S Scheffer	10 Jul-20	343,750	0.084	28,738
		343,750		28,738

1 J Challingsworth and K Hansen shares were issued under existing performance rights (issued during the year ended 30 June 2020). Performance rights conditions (linked to share price) were met during the year ended 30 June 2021.

Options and performance rights

The terms and conditions of each grant of options affecting remuneration in the current or future reporting periods are as follows:

KMP	Grant date	No of options	Vesting date	Expiry date	Exercise price	Value per option at grant date	% vested
G Lord	16 Sep-20	6,000,000	16 Sep-25	16 Sep-25	$0.25	$0.180	100%
G Baxter	16 Sep-20	3,000,000	16 Sep-25	16 Sep-25	$0.25	$0.180	100%
M Haas	22 Jun-21	3,000,000	22 Jun-21	21 Sep-26	$0.21	$0.127	100%
J Jones	30 Apr-21	1,000,000	27 Oct-21	30 Apr-26	$0.24	$0.124	–
D Singh*	2 Jun-21	1,000,000	2 Jun-21	16 Sep-23	$0.28	$0.110	100%
D Singh*	2 Jun-21	1,000,000	16 Sep-21	16 Sep-23	$0.35	$0.120	–

* Options awarded were granted on 2 Jun-21, at the commencement of D Singh's employment contract with TNT. As these options fall under the ESOP plan, the deemed issue date is 16 Sep-20 and the calculation of option expense amortisation is determined based on this earlier issue date.

No performance rights were contracted during the year ended 30 June 2021. The options carry no dividends or voting rights. The options will vest if the option holder remains employed by the company at the relevant vesting date.

REMUNERATION REPORT (AUDITED) (CONTINUED)

The table below shows a reconciliation of options and rights held by each KMP from the beginning to the end of FY 2021.

Year ended 30 June 2021	Balance at 1 July 2020	Granted during the year	Other change	Exercised	Lapsed/ forfeited during the year	Balance at 30 June 2021
G Lord	10,000,000	–	–	(10,000,000)	–	–
G Lord	14,250,000	–	–	(8,000,000)	–	6,250,000
G Lord	2,632,500	–	–	–	–	2,632,500
G Lord	–	6,000,000	–	–	–	6,000,000
G Baxter	–	3,000,000	–	–	–	3,000,000
P Flannigan	6,000,000	–	–	–	–	6,000,000
P Flannigan	–	3,000,000	–	–	(3,000,000)	–
M Haas[1]	–	3,000,000	–	–	–	3,000,000
J Challingsworth[2]	10,000,000			(10,000,000)	–	–
K Hansen[3]	10,000,000			(10,000,000)	–	–
J Jones[4]	–	1,000,000	–	–	–	1,000,000
D Singh[5]	–	2,000,000				2,000,000

1 M Haas's non-executive director options were formally approved by shareholder vote at the General Meeting held by videoconference, at 9.00 am AEDT on 22 June 2021
2 Represent performance rights which met conditions for conversion to ordinary shares during the year
3 Represent performance rights which met conditions for conversion to ordinary shares during the year
4 Options contracted upon commencement of employment on 30 April 2021 and vest 6 months after commencement date
5 Represent options issued under Employee Share Option Plan (ESOP), approved by the board in October 2020

The total value of options and performance rights that were granted during the year ended 30 June 2021 is as follows:

KMP	No of options	Value per option at grant date	Total value of options granted during the year $
G Lord	6,000,000	$0.180	1,080,000
G Baxter	3,000,000	$0.180	540,000
M Haas	3,000,000	$0.127	380,000
J Jones	1,000,000	$0.124	124,196
D Singh	1,000,000	$0.110	110,000
D Singh	1,000,000	$0.120	120,000

The fair value of these options granted as remuneration as shown in the above table has been determined in accordance with Australian Accounting Standards, using the Black-Scholes method of calculation and will be recognised over the relevant vesting period to the extent that the conditions necessary for vesting are satisfied.

Directors' Report

for the year ended 30 June 2021

REMUNERATION REPORT (AUDITED) (CONTINUED)

D. Additional Information

Relationship between remuneration policy and Company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The chosen method to achieve this aim is providing shares and share options to link future benefits to the performance of the Company's share price. The Company believes this policy will be effective in increasing shareholder's wealth. The earnings of the Company for the reporting periods to 30 June 2020 are summarised below, along with details that are considered to be factors in shareholder returns:

$'000 (unless otherwise stated)	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20	30-Jun-21
Statutory revenue - external customer sales	5,375	5,328	5,260	20,223	**67,389**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	(2,884)	(1,529)	(3,843)	(5,020)	**189**
Loss after income tax	(3,464)	(3,096)	(4,373)	(7,312)	**(4,533)**
Basic loss per share (cents)	(2.99)	(2.62)	(2.90)	(2.02)	**(0.52)**
Share price at financial year end (cents)	9.2	6.0	4.5	8.0	**23.5**

Performance rights exercised during the year ended 30 June 2021

During the year the Performance Rights which were put in place in order to reflect growth in revenue and market capitalisation were exercised as a result of the performance conditions having been met.

These Performance Rights were approved by shareholders on 29 November 2019. No performance-based measures were put in place during the year ended 30 June 2021.

E. Additional Information in relation to key management personnel shareholdings

Ordinary shares held in Tesserent Limited (number) as at 30 June 2021

	Balance 1 July 2020	Shares issued as remuneration during the year	Issued on exercise of options and CNs during the year	On-market changes	Other changes	Balance 30 June 2021
Non-Executive Directors						
G Lord	27,433,334	–	71,825,622	–	–	99,258,956
G Baxter	4,120,327		–			4,120,327
P Flannigan	–	–	22,000,000	(9,375,000)	–	12,625,000
Executive Directors						
J Challingsworth	4,000,000	–	10,000,000	–	–	14,000,000
K Hansen	4,202,112	–	10,000,000	(1,262,538)	–	12,939,574
Other KMPs						
S Scheffer	–	343,750	–	(343,750)	–	–
G Katavic	6,774,641	–	–	–	1,171,159	7,945,800
C Hagios	–	–	–	–	9,313,333	9,313,333
C Humphreys	–	–	–	–	20,410,431	20,410,431
Total	46,530,414	343,750	113,825,622	(10,981,288)	30,894,923	180,613,421

REMUNERATION REPORT (AUDITED) (CONTINUED)

Share options and performance rights held in Tesserent Limited (number) as at 30 June 2021

	Balance 1 July 2020	Granted as payment for remuneration	Options/ rights converted	Other changes	Balance 30 June 2021	Vested and exercisable
Non-Executive Directors						
G Lord	26,882,500	6,000,000	(10,000,000)	(8,000,000)*	14,882,500	14,882,500
G Baxter	1,500,000	3,000,000	–	–	4,500,000	4,500,000
P Flannigan	6,000,000	3,000,000	–	(3,000,000)	6,000,000	6,000,000
M Haas	–	3,000,000	–	–	3,000,000	3,000,000
Executive Directors						
J Challingsworth	10,000,000	–	(10,000,000)	–	–	–
K Hansen	10,000,000	–	(10,000,000)	–	–	–
Other KMPs						
J Jones	–	1,000,000	–	–	1,000,000	–
D Singh	–	2,000,000	–	–	2,000,000	1,000,000
Total	52,882,500	18,000,000	(30,000,000)	(11,000,000)	29,882,500	29,382,500

* Options transfered to related parties (not controlled by G Lord).

F. Loans from/to KMP

There were no loan balances with Key Management Personnel as at 30 June 2021.

G. Other Transactions with KMP

The Company undertook business with Belgravia Group and associated companies that Mr G Lord is a director of and owns an interest in. Products purchased totalled $4,351 (interest relating to the funding of insurance premiums) through Belgravia Finance Pty Ltd. Products and services sold to Belgravia totalled $147,982 being professional services (cyber consulting) to Belgravia Health Pty Ltd of $6,250, and professional services and software subscriptions and support to Belgravia Group Pty Ltd of $141,732.

There were no other transactions with Key Management Personnel.

This concludes the remuneration report, which has been audited.

NON-AUDIT SERVICES

During the year, BDO Audit Pty Ltd, the Company's auditor, performed certain other services in addition to their statutory duties. The Directors are satisfied that the provision of these non-audit services by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of amounts paid or payable for non-audit services is outlined in Note 34 of the financial statements:

	2021 $	2020 $
Corporate and indirect tax services	**26,538**	41,750
Due diligence services	**575,041**	118,000
Total	**601,579**	159,750

Directors' Report

for the year ended 30 June 2021

NON-AUDIT SERVICES (CONTINUED)

The Directors are of the opinion that the services outlined in Note 34 to the financial statements do not compromise the external auditor's independence for the following reasons:

- All non-audit services have been reviewed and approved by the Board to ensure that they do not impact the integrity and objectivity of the auditor, and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Profession and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing economic risks and rewards.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included at page 45 of the Annual Report.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support the principles of Corporate Governance. The Company continued to follow best practice recommendations as set out by the ASX Corporate Governance Council. Where the Company has not followed best practice for any recommendation, explanation is given in the Corporate Governance Statement within this Annual Report. The Company's Corporate Governance statement, can be found earlier in this report and is available on the Company's website at https://www.tesserent.com/.

ROUNDING OF AMOUNTS

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Signed in accordance with a resolution of the Directors made pursuant to s.298 (2) of the *Corporations Act 2001*. On behalf of the Directors

Julian Challingsworth
Co-Chief Executive Officer

29 September 2021

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DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF TESSERENT LIMITED

As lead auditor of Tesserent Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Tesserent Limited and the entities it controlled during the period.

David Garvey
Director

BDO Audit Pty Ltd

Melbourne, 29 September 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Revenue	5	67,389	20,223
Other income	6	964	175
Expenses			
Software licence and connectivity fees		(9,654)	(5,449)
Employee benefits expense		(35,567)	(12,044)
Contractor expense		(8,679)	(2,082)
Administration expenses		(1,475)	(883)
Bad and doubtful debts	7	(235)	(281)
Consulting and legal costs		(962)	(957)
Advertising and promotion		(404)	(212)
Business acquisition costs		(4,934)	(1,995)
Share option expense		(4,462)	(265)
Depreciation and amortisation expense	7	(4,975)	(1,523)
Impairment of assets		–	(786)
Finance costs	7	(4,431)	(824)
Other expenses		(1,686)	(1,250)
Loss before income tax benefit		(9,111)	(8,153)
Income tax benefit	8	4,578	841
Loss after income tax benefit for the year		(4,533)	(7,312)
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year		(4,533)	(7,312)

	Note	Cents	Cents
Basic earnings per share	42	(0.52)	(2.02)
Diluted earnings per share	42	(0.52)	(2.02)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

as at 30 June 2021

	Note	2021 $'000	2020 $'000
Assets			
Current Assets			
Cash and cash equivalents	9	**14,860**	4,350
Trade and other receivables	11	**24,799**	7,423
Contract assets	12	**9,293**	780
Prepayments	13	**1,906**	1,382
Inventories	14	**85**	64
Lease asset receivables	15	**254**	–
Current tax asset		**215**	288
Total current assets		**51,412**	14,286
Non-Current Assets			
Contract assets	12	**159**	158
Property, plant and equipment	18	**2,700**	864
Intangibles	19	**29,577**	7,618
Goodwill	20	**83,259**	15,965
Right-of-use assets	17	**6,812**	3,921
Lease asset receivables	15	**534**	–
Investments in associates and joint ventures	21	**5,867**	–
Other assets	16	**811**	466
Total non-current assets		**129,718**	28,992
Total Assets		**181,130**	43,278
Liabilities			
Current Liabilities			
Trade and other payables	22	**28,973**	7,470
Contract liabilities	23	**7,335**	2,651
Lease liabilities	24	**2,390**	1,046
Provisions	25	**2,831**	843
Income tax payable	26	**172**	–
Deferred settlement liabilities	27	**11,699**	4,714
Total current liabilities		**53,400**	16,724
Non-Current Liabilities			
Contract liabilities	23	**1,179**	129
Lease liabilities	24	**5,078**	3,489
Borrowings	28	**25,603**	3,637
Provisions	25	**675**	666
Deferred settlement liabilities	27	**1,652**	686
Deferred tax liability	8	**5,910**	1,440
Total non-current liabilities		**40,097**	10,047
Total Liabilities		**93,497**	26,771
Net Assets		**87,633**	16,507

Consolidated Statement of Financial Position

as at 30 June 2021

	Note	2021 $'000	2020 $'000
Equity			
Contributed equity	29	102,992	29,485
Convertible notes	30	–	6,532
Reserves	31	11,200	1,840
Accumulated losses		(26,558)	(21,349)
Total Equity		87,633	16,507

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes In Equity

for the year ended 30 June 2021

	Contributed equity $'000	Converting notes $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2019	**13,756**	**–**	**773**	**(14,165)**	**362**
Loss after income tax benefit for the year	–	–	–	(7,312)	(7,312)
Other comprehensive income for the year, net of tax	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(7,312)	(7,312)
Issue of shares	4,924	–	–	–	4,924
Issue of convertible notes	–	9,434	–	–	9,434
Capital raising costs	(330)	(451)	–	–	(781)
Share based payments	1,628	–	1,781	–	3,409
Shares issues as part of business combination	6,732	–	–	–	6,732
Shares issued on conversion of convertible notes	2,775	(2,775)	–	–	–
Distributions to convertible note holders	–	324	–	(324)	–
Options expired	–	–	(403)	403	–
Deferred tax	–	–	(310)	–	(310)
Impact AASB 16 Lease, net of tax	–	–	–	49	49
Balance at 30 June 2020	**29,485**	**6,532**	**1,840**	**(21,349)**	**16,507**

	Contributed equity $'000	Converting notes $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	**29,485**	**6,532**	**1,840**	**(21,349)**	**16,507**
Loss after income tax benefit for the year	–	–	–	(4,533)	(4,533)
Other comprehensive income for the year, net of tax	–	–	–	–	–
Total comprehensive income for the year	–	–	–	(4,533)	(4,533)
Capital raising costs	(216)	–	–	–	(216)
Warrants issued	–	–	8,050	–	8,050
Share options issued	–	–	4,213	–	4,213
Shares issued or accrued as part of business combinations	50,480	–	–	–	50,480
Shares issued or accrued to employees or consultants	4,744	–	–	–	4,744
Shares issued on conversion of convertible notes	7,172	(6,721)	–	(451)	–
Distribution to convertible note holders	–	190	–	(190)	–
Options exercised	4,114	–	(169)	(90)	3,855
Options forfeited	–	–	(365)	365	–
Warrants exercised	7,213	–	–	–	7,213
Deferred tax	–	–	(2,400)	(310)	(2,710)
Translation of foreign operations	–	–	30	–	30
Balance at 30 June 2021	**102,992**	**–**	**11,200**	**(26,558)**	**87,633**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**90,933**	23,312
Payments to suppliers and employees (inclusive of GST)		**(86,148)**	(26,170)
Other revenue	**6**	**158**	166
Interest received	**6**	**9**	9
Interest and other finance costs paid		**(1,177)**	(416)
Income taxes paid		**(881)**	(151)
Net cash from / (used in) operating activities	**10**	**2,893**	(3,250)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	**39**	**(18,629)**	(10,171)
Payments for investments	**21**	**(3,000)**	–
Payments for property, plant and equipment	**18**	**(1,461)**	(73)
Capitalised development costs	**19**	**(25)**	(82)
Net cash used in investing activities		**(23,115)**	(10,326)
Cash flows from financing activities			
Proceeds from issue of shares	**29**	**9,485**	4,924
Cost of issuing shares	**29**	**(216)**	(188)
Proceeds from borrowings	**28**	**30,000**	4,920
Repayment of lease liabilities	**24, 25**	**(1,772)**	(751)
Transaction costs related to loans and borrowings	**28**	**(798)**	(12)
Proceeds (distributions to) / from convertible notes	**30**	**(190)**	8,995
Payment of deferred settlement liabilities	**27**	**(5,778)**	(962)
Net cash from financing activities		**30,732**	16,926
Net increase in cash and cash equivalents		**10,510**	3,350
Cash and cash equivalents at the beginning of the financial year		**4,350**	1,000
Cash and cash equivalents at the end of the financial year	**9**	**14,860**	4,350

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements were authorised for issue by the Directors on 29 September 2021.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements cover Tesserent Limited ("the Company") and its controlled entities as a consolidated entity ("the Group") for the year ended 30 June 2021. The Company is a company limited by shares that are publicly traded on the Australian Stock Exchange, incorporated and domiciled in Australia.

Tesserent provides Cyber security consulting, cloud and managed services to a wide range of Australian and international customers, including education providers, corporate enterprises, and government customers.

These services are provided on the basis of consulting contracts, software implementation contracts and a subscription fees, either as one off engagements, longer term projects or as monthly or annual fees.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

Going Concern

For the year ended 30 June 2021 the Group made a net loss of $4.5m (2020: $7.3m) and had cash inflows from operations of $2.9m (vs. 2020: outflows of $3.3m). Current liabilities exceed current assets by $2.0m. The group's cash reserves amounted to $14.9m and trade and other receivables amounted to $24.8m, whilst current trade and other payables amounted to $29.0m.

Management has considered the impacts of continuing Government restrictions in response to the COVID-19 pandemic.

The measures taken have impacted how the Group's employees operate and how the Group operates. Whilst this has proven disruptive, the Group has continued to trade and is able to meet ongoing customer contract obligations, and source and service new sales contracts. The Group's supply chain has also been disrupted but not to the extent that the Group is unable to deliver products and services. Management has fully considered the impact of the pandemic when considering the Group's ability to continue as a going concern.

The Group budgets and cash flow forecasts take into account expected trading performance and the Directors believe that the Group will continue to meet its obligations as and when they fall due, with positive forecast operational cash flows contributing to cash reserves. The Group does not expect to require any additional debt funding other than that required to fund additional acquisitions and expects that the Group will raise additional funding through a combination of equity placings and debt funding, which has occurred after balance date as disclosed in Note 41.

On the basis of this information, the Directors have a reasonable expectation that the business has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing this financial report.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 38.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Tesserent Limited ('TNT' or 'company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Tesserent Limited and its subsidiaries together are referred to in these financial statements as the 'Group' or the 'Company'.

Subsidiaries are all those entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Foreign currency translation

The functional currency of each of the entities in the Group must reflect the primary economic environment in which the entity operates. Accordingly, the relevant functional currencies are Australian dollars for the Australian entities and NZ dollars for the NZ entity and Singapore dollars for the Singapore entity. Foreign currency items are translated to Australian currency on the following basis.

- Transactions are converted at exchange rates approximating those in effect at the date of the transaction.
- On consolidation, the assets and liabilities of the foreign operation are translated into Australian dollars at the rate of exchange prevailing at the reporting date except for retained earnings which is translated at a historic rate of exchange pertaining to the relevant financial year. The Statement of Comprehensive income is translated at an average exchange rate over the financial year.
- The exchange difference arising on translation for consolidation are recognised in the balance sheet as a foreign currency translation reserve. On disposal of a foreign operation, the reserve is reclassified to profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

The company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The Directors do not believe the adoption of these Accounting Standards and Interpretations will have a material impact on the financial performance or position of the Company in future reporting periods.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

2. CRITICAL ACCOUNTING JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Revenue from contracts with customers involving sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the group is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

A portion of the Group's revenue is derived from selling third party Cyber Security products and monitoring software to clients. In the instances where the Group makes these sales to customers with limited or no associated implementation or customisation work, the requirements under the AASB15 Revenue from Contracts with Customers, deem TNT to be selling those products as an 'agent' and require the sales turnover (invoiced amount) to be netted off against the cost of acquiring that software. The impact of this during the year ended 30 June 2021, is to net down the Groups Turnover (invoiced sales) from $96.7m to a reported statutory revenue of $67.4m.

The Group's revenue is derived from the provision of software licences, hardware equipment, managed services, consulting services and support and maintenance renewals over multiple periods. In applying the requirements of AASB 15 Revenue from Contracts with Customers the Group has had to make assumptions around future billing and completion of future performed obligations.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Estimation of useful lives of assets

The group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 20. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Fair Value of Lateral earnout consideration

Deferred consideration in respect of Lateral Security includes a component payable in issued capital. The contractual obligation for Earnout Shares as set out in the Share Purchase Agreement, is to issue a defined number of ordinary shares in TNT.

The fair value of the Earnout Shares which were expected to be issued under the Share Purchase Agreement was determined based on the share price of TNT shares on 12 February 2021 (being the date on which the acquisition of Lateral Security was completed). The fair value of these Earnout Shares was re-assessed at the date that the earnout date was reached and the contractual obligation to issue the shares crystalised (being 31 May 2021).

These Earnout Shares are to be issued on 12 February 2022. They have been accounted for in line with Accounting Standard AASB132 in that an instrument that meets requirements for classification as equity and the contractual obligation has been classified as 'Contributed equity'.

Fair Value of TrustGrid and AttackBound options held

In June 2021, Tesserent Group (TNT) entered into two investments comprising a 25% stake in TGrid Holdings Pty Ltd and a 25% stake in AttackBound Holdings Pty Ltd.

Consideration payable for the shares and options in TrustGrid and AttackBound under the terms of the Share Purchase Agreements and Convertible Note Deeds, comprises respectively, cash consideration and consideration in TNT shares as consideration for shares in the acquired entities plus cash consideration for grant of option instruments.

The options acquired under the Convertible Note Deeds (Options), give TNT the right to acquire additional shares in either TrustGrid or AttackBound to maintain TNT's shareholding in the relevant business when each business raises additional capital by issuing new shares.

The right to acquire these additional shares is essentially drawn down against amounts paid (or payable) under the Cash consideration plus Deferred Cash consideration for grant of Option Instrument. The pricing of these additional shares is to be equivalent to the share price applied to the applicable capital raise (Notional Share Price). The Options have a two-year Exercise Period from the date of completion of the Convertible Note Deeds – being 16 June 2021.

As at 30 June 2021, the carrying value of these options has been assessed as being equal to the cost of the options under the Convertible Note Deed, as the Directors believe this is the best estimate of the extent of the Call Option that will be exercised in the future. The carrying value of the options will be re-assessed, based on the underlying value of each of the TrustGrid and AttackBound businesses and the expectation/probability of the businesses raising capital within the Exercise Period.

Fair value of warrants associated with long term borrowings facilities

The fair value of long-term borrowings disclosed in Note 28, are based on cash flows discounted using effective market discount rates available to the Group. Finance costs of $10.3m (2020:$1.6m) have been recognised to be amortised over the life of the borrowings, which in effect discounts the face value of the borrowings of $35 million. The effective interest rate method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimate future cash payments through the expected life of the financial liability or, where appropriate, shorter period.

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2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Income tax

The group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on the group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and income tax losses only if the group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in Note 25, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Business combinations

As discussed in Note 39, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

3. ADJUSTMENTS TO PRELIMINARY FINANCIAL STATEMENTS

On 30 August 2021, the Group released its unaudited Preliminary Financial Statements and Appendix 4E, with a reported loss after tax of $4.5m and net assets of $87.6m.

The reported loss after tax of $4.5m and net assets of $87.6m, remain unchanged within this final Annual Report, however it is noted that there have been a some changes to the classification grouping of items within the Statement of Financial Position as follows:

	Appendix 4E Preliminary report $'000	Audited Annual Report $'000
Total current assets	51,467	51,412
Total non-current assets	129,722	129,718
Total current liabilities	(54,523)	(53,400)
Total non-current liabilities	(39,034)	(40,097)
Net increase in cash held	**87,632**	**87,633**

Further to this, there have also been some changes to the Statement of Cashflows to ensure classification of items is consistent with the notes to this Annual report. The impact of these changes are as follows:

	Appendix 4E Preliminary report $'000	Audited Annual Report $'000
Cash used in operations	2,668	2,893
Cash used in investing activities	(20,656)	(23,115)
Cash from financing activities	28,498	30,732
Net increase in cash held	**10,510**	**10,510**

The difference in cash flows arose from a re-allocation of some investing costs to operating payments and correction in the treatment of cash paid for acquisitions but held in escrow.

4. OPERATING SEGMENTS

Identification of reportable operating segments

The Group operates predominantly in Australia and New Zealand (following the acquisition of Lateral Security on 12 February 2021 – refer to Note 39 Business Combinations)

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed by the Group's chief operating decision maker (CODM) in order to effectively allocate Group resources and assess performance. In the case of Tesserent, the Co-Chief Executive Officers are the Group's CODM's.

In the process of preparing the strategic plan and budget for the 30 June 2022 financial year, the Group updated its internal management reporting structure and go to market approach. This revised structure has evolved through the management reporting developed in the 30 June 2021 financial year given the significant number of acquisitions during the year, and forms the basis in which the CODMs manage the business and assessment performance.

Under the revised structure, the Group's internal reporting and management comprises three primary operating segments, being:

1. **Tesserent Commercial segment**- comprising the Group's core customer offerings Defend, Cloud and Detect customer service offerings
2. **Tesserent Federal segment** – comprising the North Security, Ludus and Seer Security businesses
3. **Tesserent New Zealand segment** – comprising the newly acquired Lateral business plus the newly incorporated Tesserent NZ entity to cross sell services from the Australian Commercial Division into Lateral and new NZ customers

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4. OPERATING SEGMENTS (CONTINUED)

The CODMs review these segments down to the EBIDAC level (Earnings before interest, tax, depreciation, amortisation and corporate overhead costs), with reporting of corporate overhead costs and non-cash costs done on a consolidated group basis.

Year ended 30 June 2021	Tesserent Commercial $000	Tesserent Federal $000	Tesserent New Zealand $000	Other / unallocated $000	Total $000
Net Sales to external customers	40,572	24,976	1,846	(5)	67,389
Other sales	171	23	–	770	964
Total revenue	40,743	24,999	1,846	765	68,353
EBITDAC	7,262	5,595	661	(31)	13,487
Corporate costs (including acquisition costs and SBP*)	–	–	–	(13,298)	(13,298)
EBITDA	7,262	5,595	661	(13,329)	189
Depreciation and amortisation	–	–	–	(4,975)	(4,975)
Interest expense and PAM facility amortisation	–	–	–	(4,325)	(4,325)
Profit/(loss) before income tax expense	7,262	5,595	661	(22,629)	(9,111)
Income tax expense	–	–	–	4,578	4,578
Profit/(loss) after income tax expense	7,262	5,595	661	(18,051)	(4,533)
Material items include:					
** Share based payments*					(4,462)
** Acquisition costs*					(4,934)
Total segment assets	89,597	36,946	6,998	47,591	181,130
Total segment liabilities	42,330	6,600	193	44,374	93,497

Year ended 30 June 2020	Tesserent Commercial $000	Tesserent Federal $000	Tesserent New Zealand $000	Other / unallocated $000	Total $000
Net Sales to external customers	16,151	4,072	–	–	20,223
Other sales	110	65	–	–	175
Total revenue	16,261	4,138	–	–	20,399
EBITDAC	(1,397)	798	–	(794)	(1,393)
Corporate costs (including acquisition costs and SBP*)	–	–	–	(4,413)	(4,413)
EBITDA	(1,397)	798	–	(5,207)	(5,806)
Depreciation and amortisation	–	–	–	(1,523)	(1,523)
Interest expense and PAM facility amortisation	–	–	–	(824)	(824)
Profit/(loss) before income tax expense	(1,397)	798	–	(7,554)	(8,153)
Income tax expense	–	–	–	841	841
Profit/(loss) after income tax expense	(1,397)	798	–	(6,713)	(7,312)
Material items include:					
** Share based payments*					(1,468)
** Acquisition costs*					(1,296)
Total segment assets	15,782	8,096	–	19,400	43,278
Total segment liabilities	12,230	2,335	–	12,205	26,771

5. REVENUE

	2021 $'000	2020 $'000
Managed services	**7,216**	5,938
Consulting services	**50,964**	12,112
Software licences	**7,844**	1,327
Hardware equipment	**642**	545
Support and maintenance renewals	**687**	299
Other sales revenue	**36**	2
Revenue	**67,389**	20,223

Significant accounting policy

Revenue from contracts with customers – General principles

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods and services to a customer. For each contract with a customer, the consolidated entity identifies the contract with a customer, identifies the performance obligations in the contract, determines the transaction price which takes into account estimates of variable consideration and the time value of money, allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered, and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a liability.

Revenue from contracts – Managed services

Revenue derived through licensing arrangements for customers who subscribe to Tesserent's security infrastructure platform for the provision of Security-as-a-Service is recognised as performance obligation identified in the sales contract are performed. Related costs of the performance obligations are recognised on completion of the performance obligation. Costs arising from incomplete performance obligations are capitalised into contract assets. Revenue invoiced for incomplete performance obligations is recognised as a liability in unearned revenue.

Revenue derived from the connectivity and related support services including installation and setup of hardware is recognised at the time the service is provided. On the basis that monthly unused support services do not accumulate, the company recognises revenue evenly over the term of the contract, in line with service delivery.

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5. REVENUE (CONTINUED)

Revenue from contracts – Consulting services

Revenue from the sale of consulting services is recognised as performance obligations set out in the contract of sale are performed as outlined above. Where no contract is in place, revenue is recognised as the service is consumed by the customer. Unbilled consulting services are recognised as work in progress. Services invoiced in advance of completion are recorded as a liability as unearned income.

Revenue from contracts – Sale of software licences

Software licences income is recognised on an agency basis. The Group sells the licence and bills customers the full cost, including its agency fee. The related cost of the software licence is offset against the software licence income recognised.

Revenue from contracts - Hardware equipment

Revenue derived from the sale of hardware equipment is recognised on an agency basis. The Group sells the equipment and bills the customer the full cost, including its agency fee. The related cost of the hardware equipment is offset against the hardware equipment income recognised.

Revenue from contracts - Maintenance and support renewals

Revenue from the sale of maintenance and support renewals is recognised as performance obligations set out in the contract of sale are performed as outlined above.

Where vendor renewals are resold to customers, revenue is recognised on an agency basis. The Group sells the renewals and bills the customer the full cost, including its agency fee. The related cost of the renewal is offset against the renewal income recognised.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Interest revenue

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Critical accounting estimates and assumptions

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of deliver of the goods or services to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access. The Group's revenue is derived from the provision of software licences, hardware equipment, managed services, consulting services and support and maintenance renewals over multiple periods. In applying the requirements of AASB 15 Revenue from Contracts with Customers the Group has had to make assumptions around future billing and completion of future performed obligations.

6. OTHER INCOME

	2021 $'000	2020 $'000
Government grants	**113**	100
Other income*	**842**	67
Interest income	**9**	9
Other income	**964**	175

* Other income in 2021 includes $684k of non-cash income, the majority of which relates to a positive fair value adjustment on equity consideration recorded but not yet issued in relation to the acquisition of Lateral Security.

7. EXPENSES

Loss before income tax includes the following specific expenses:

	2021 $'000	2020 $'000
Depreciation		
Leasehold improvements	**141**	125
Plant and equipment	**559**	28
Fixtures and fittings	**25**	15
Office equipment	**768**	53
Computer software	**33**	–
Hardware employed	**5**	10
Right of use assets	**1,235**	600
Total depreciation	**2,766**	831
Amortisation		
Customer contracts and relationships	**2,206**	441
Software	**–**	251
Intellectual property	**3**	–
Total amortisation	**2,209**	692
Total depreciation and amortisation	**4,975**	1,523
Impairment		
Software IP	**–**	786
Finance costs		
Interest and finance charges paid/payable on borrowings (cash)	**1,630**	604
Interest and finance charges paid/payable on borrowings (warrant amortisation)	**2,396**	–
Interest and finance charges paid/payable on lease liabilities	**280**	139
Other finance costs	**125**	80
Finance costs expensed	**4,431**	824
Superannuation expense		
Defined contribution superannuation expense	**2,618**	1,077
Bad and Doubtful Debts Expense		
Trade and other receivables	**235**	281
	235	281

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

8. INCOME TAX BENEFIT

	2021 $'000	2020 $'000
(a) Income tax expense		
Current tax expense	**–**	–
Deferred tax movements (current year)	**(4,101)**	(841)
Deferred tax movements (prior year)	**(477)**	–
	(4,578)	(841)
(b) Reconciliation of income tax expense to prima facie tax on accounting loss		
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	**(9,111)**	(8,153)
Tax at the statutory tax rate of 30% (2020: 27.5%)	**(2,733)**	(2,242)
Share based payments	**1,296**	215
Current year tax losses not recognised	**–**	467
Prior year tax losses recognised	**(4,101)**	–
Other	**960**	729
Prior year adjustments	**–**	(11)
Income tax benefit	**(4,578)**	(841)
(c) Movement in deferred tax balances		
Deferred tax assets/(liabilities)		
Share issue costs	**(2,160)**	(217)
Provisions	**300**	756
Intangible assets	**(8,416)**	(2,028)
Right of use assets and liabilities	**(65)**	176
Tax losses recognised (current year)	**1,270**	–
Tax losses recognised (prior years)	**4,101**	–
Other[1]	**(940)**	(127)
	(5,910)	(1,440)

1 Other is predominantly the tax effect on accrued revenue.

	Share issue costs $'000	Provisions $'000	Intangible assets $'000	Right of use assets and liabilities $'000	Tax losses recognised $'000	Other $'000	Total $'000
As at 1 July 2020	(217)	756	(2,028)	176	-	(127)	(1,440)
Acquired upon business combination (Note 39)	-	503	(7,016)	(245)	-	-	(6,758)
Charged to profit and loss	661	(882)	628	26	5,371	(683)	5,121
Charged through equity	(2,604)	(100)	-	(6)	-	-	(2,710)
Overprovision in previous years	-	23	-	(16)	-	1	8
Change in tax rate	-	-	-	-	-	(131)	(131)
As at 30 June 2021	(2,160)	300	(8,416)	(65)	5,371	(940)	(5,910)

8. INCOME TAX BENEFIT (CONTINUED)

(d) Tax losses

	2021 $	2020 $'000
Unused tax losses for which no deferred tax asset has been recognised	–	13,060
Potential tax benefit at 30% (2020: 27.5%)	–	3,591

Carried forward tax losses have been brought to account as a deferred tax asset. Based on the value of tax losses incurred, the directors' have formed an opinion that the business is in a position to satisfy the criteria for recognising these losses as a deferred tax asset.

The benefits of deferred tax losses not brought to account can only be realised in the future if:

- assessable income is derived of a nature, and of an amount sufficient to enable the benefit from the deductions to be realised
- conditions for deductibility imposed by law are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

The directors on a regular basis will assess the recognition of the deferred tax assets.

(e) Franking credits

	2021 $	2020 $
Franking credits available for subsequent financial years based on a tax rate of 30% (2020: 27.5%)	–	26

Significant Accounting Policy

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

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9. CASH AND CASH EQUIVALENTS

	2021 $'000	2020 $'000
Current assets		
Cash at bank	**14,860**	4,350

Significant Accounting Policies

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts.

Financial Instrument Risk Management

The main risks arising from cash and cash equivalents is interest rate risk. The Directors manage risk by monitoring levels of exposure to interest rates and consider cash requirements in relation to ongoing cash flow budgets.

Interest Rate Risk

Exposure to interest rate risk arises on financial instruments whereby a future change in interest rates will affect future cash flows of variable rate financial instruments. At 30 June 2021, the Company cash and cash equivalents was held in variable rate bank accounts. The risk attached to the interest income for the year ended 30 June 2021 was not considered significant.

Credit Risk

The Group banks with reputable institutions with credit worthiness appropriate to mitigate credit risk associated to the bank deposits. Credit risk is managed by the Board in accordance with its policy.

Fair Value

The fair value of the cash balances approximates fair value due to the short-term nature of the deposits.

10. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH FROM/(USED IN) OPERATING ACTIVITIES

	2021 $'000	2020 $'000
Operating loss after income tax	**(4,533)**	(7,312)
Tax credit	**(4,578)**	–
Depreciation and amortisation	**4,975**	1,523
Interest (non-cash component)	**2,396**	387
Impairment of non-current assets	**–**	786
Other expenses (non-cash)	**(80)**	5
Acquisition costs settled in shares	**3,238**	–
Share option expense	**4,462**	1,468
Bad debt provision	**235**	281
Change in net operating assets and liabilities:		
Increase in trade and other receivables	**(12,688)**	(1,653)
Increase in contract assets	**(8,141)**	(401)
Decrease in prepayments	**467**	–
Increase in inventories	**(21)**	213
Increase in other assets	**(120)**	(175)
Increase in trade and other payables	**14,961**	1,133
Increase in contract liabilities	**5,155**	1,355
Decrease in current tax asset	**74**	(151)
Decrease in deferred tax balances	**(3,063)**	(852)
Increase in provisions	**154**	143
Net cash inflow/(outflow) from operating activities	**2,893**	(3,250)

11. TRADE AND OTHER RECEIVABLES

	2021 $'000	2020 $'000
Current assets		
Trade receivables	**23,385**	7,421
Less: Allowance for expected credit losses	**(248)**	(81)
	23,137	7,340
Other receivables	**1,662**	83
	24,799	7,423

Allowance for expected credit losses

The consolidated entity has recognised a provision of $248k (2020: $81k) with movement through the profit and loss in respect of the expected credit losses for the year ended 30 June 2021.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2021 %	2020 %	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Not overdue	**–**	–	**20,019**	4,496	**–**	–
Past due 30 to 60 days	**1%**	–	**4,134**	1,328	**45**	–
Past due 60 to 90 days	**9%**	–	**280**	770	**26**	–
Past due 90 to 120 days	**29%**	–	**368**	231	**106**	–
Past due over 120 days	**29%**	12%	**247**	679	**71**	81
			25,047	7,504	**248**	81

Movements in the allowance for expected credit losses are as follows:

	2021 $'000	2020 $'000
Opening balance	**81**	60
Additional provisions recognised	**246**	341
Additions through business combinations	**–**	19
Receivables written off during the year as uncollectable	**(43)**	(279)
Write back of allowance	**(36)**	(60)
Closing balance	**248**	81

Significant Accounting Policies

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowances for expected credit losses. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

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11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Financial Instrument Risk Management

The main risk arising from trade and other receivables is credit risk. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in consolidates statement of financial position and notes to the consolidated financial statements.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account provision for impairment of trade receivables is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisations, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The Group does not have any significant credit risk to any single counterparty given the large number of customers.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The maximum exposure to credit risk for trade and other receivables is the carrying amount, net of any provisions for impairment of those assets, as discussed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral. The entity considers a receivable as impaired once all efforts to recover an amount have been exhausted, including referring to debt collection or statutory action.

12. CONTRACT ASSETS

	2021 $'000	2020 $'000
Current assets		
Contract assets	**9,293**	780
Non-current assets		
Contract assets	**159**	158
Reconciliation		
Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	**938**	–
Additions	**19,048**	4,944
Additions through business combinations (Note 39)	**373**	1,413
Transfer to trade receivables	**(10,899)**	(5,419)
Write off of assets	**(8)**	–
Closing balance	**9,452**	938

Significant Accounting Policy

Contract assets are recognised when the group has transferred goods or services to the customer but where the group is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

13. PREPAYMENTS

	2021 $'000	2020 $'000
Current assets		
Connectivity services	**854**	1,008
Subscriptions	**462**	280
Other	**590**	94
	1,906	1,382

14. INVENTORIES

	2021 $'000	2020 $'000
Current assets		
Inventory	**85**	64

Significant Accounting Policies

Inventory is stated at lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

As at 30 June 2021 there had been no write downs and all inventories are stated at cost (2020: $nil).

15. LEASE ASSET RECEIVABLES

	2021 $'000	2020 $'000
Current assets		
Lease asset receivables	**254**	–
Non-current assets		
Lease asset receivables	**534**	–

16. OTHER ASSETS

	2021 $'000	2020 $'000
Non-current assets		
Security deposits	**736**	465
Other non-current assets	**75**	1
	811	466

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17. RIGHT-OF-USE ASSETS

	2021 $'000	2020 $'000
Non-current assets		
Building Leases - right-of-use	**12,367**	6,087
Less: Accumulated depreciation	**(5,555)**	(2,166)
	6,812	3,921

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Building Leases $'000	Total $'000
Balance at 1 July 2019	1,262	1,262
Additions through business combinations	3,258	3,258
Depreciation expense	(600)	(600)
Balance at 30 June 2020	3,920	3,920
Additions through business combinations (Note 39)	**5,007**	**5,007**
Disposals	**(880)**	**(880)**
Depreciation expense	**(1,235)**	**(1,235)**
Balance at 30 June 2021	**6,812**	**6,812**

Building leases comprise office and operational workspace leased on long term leases.

Included in the cost are leases acquired on business combinations as follows:

	2021 $'000	2020 $'000
Pure Security Group	**–**	2,746
North Security.Digital Pty Ltd	**–**	512
iQ3	**4,413**	–
Secure Logic	**594**	–
	5,007	3,258

Significant Accounting Policy

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

18. PROPERTY, PLANT AND EQUIPMENT

	2021 $'000	2020 $'000
Non-current assets		
Leasehold improvements - at cost	**1,025**	1,133
Less: Accumulated depreciation	**(390)**	(492)
	635	641
Plant and equipment - at cost	**4,082**	477
Less: Accumulated depreciation	**(3,320)**	(416)
	762	61
Fixtures and fittings - at cost	**319**	138
Less: Accumulated depreciation	**(219)**	(87)
	100	51
Motor vehicles - at cost	**52**	46
Less: Accumulated depreciation	**(52)**	(43)
	–	3
Computer equipment - at cost	**5,881**	167
Less: Accumulated depreciation	**(5,228)**	(111)
	653	56
Office equipment - at cost	**1,286**	203
Less: Accumulated depreciation	**(1,074)**	(151)
	212	52
Hardware employed - at cost	**394**	375
Less: Accumulated depreciation	**(372)**	(375)
	22	–
Computer software - at cost	**1,378**	–
Less: Accumulated depreciation	**(1,062)**	–
	316	–
Total	**2,700**	864

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18 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Furniture & Fittings $'000	Hardware Employed $'000	Office Equipment $'000	Software $'000	Leasehold improvement $'000	Plant & Equipment $'000	Motor Vehicle $'000	Total $'000
Balance at 1 July 2019	58	13	–	–	369	70	–	510
Additions	24	4	27	–	–	19	–	73
Additions through business combinations (Note 39)	21	–	91	–	399	–	3	514
Disposals	(1)	–	(1)	–	(2)	–	–	(4)
Depreciation expense	(15)	(10)	(53)	–	(125)	(28)	–	(231)
Balance at 30 June 2020	87	7	64	–	641	61	3	864
Additions	**11**	**19**	**639**	**235**	**105**	**452**	**–**	**1,461**
Additions through business combinations (Note 39)	**28**	**–**	**962**	**117**	**31**	**812**	**–**	**1,950**
Disposals	**–**	**–**	**(31)**	**–**	**–**	**(3)**	**(3)**	**(37)**
Depreciation expense	**(25)**	**(5)**	**(768)**	**(36)**	**(141)**	**(559)**	**–**	**(1,534)**
Balance at 30 June 2021	**100**	**22**	**865**	**316**	**635**	**762**	**–**	**2,700**

19. INTANGIBLES

	2021 $'000	2020 $'000
Non-current assets		
Customer contracts - at cost	**31,611**	8,037
Less: Accumulated amortisation	**(2,647)**	(441)
	28,964	7,596
Other intangible assets - at cost	**684**	90
Less: Accumulated amortisation	**(71)**	(68)
	613	22
	29,577	7,618

19. INTANGIBLES (CONTINUED)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Customer contracts and relationships $'000	Intellectual property $'000	Software $'000	Total $'000
Balance at 1 July 2019	–	23	955	978
Capitalised development costs	–	–	82	82
Additions through business combinations	8,037	–	–	8,037
Impairment of assets	–	–	(786)	(786)
Amortisation expense	(441)	–	(251)	(692)
Balance at 30 June 2020	7,596	23	–	7,618
Capitalised development costs	**–**	**25**	**–**	**25**
Additions through business combinations (Note 39)	**23,574**	**569**	**–**	**24,143**
Amortisation expense	**(2,206)**	**(3)**	**–**	**(2,209)**
Balance at 30 June 2021	**28,964**	**614**	**–**	**29,577**

Significant Accounting Policies

Recognition and measurement

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost.

Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method period.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that they carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Software

Significant costs associated with software development are deferred and amortisation on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

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19. INTANGIBLES (CONTINUED)

Critical accounting estimates and assumptions

Cost of Customer contracts and relationships

The carrying value of the Customer contracts and relationships acquired through business combinations were valued in accordance with the AASB 3 *Business combinations* and AASB 138 *Intangibles*. No cost had previously been attributed to the intangible assets as they related to internally generated intangible assets that were not easily measurable.

The carrying values of the assets have been included in the CGUs in which they reside, which have been tested for impairment in accordance with AASB 136 Impairment. The critical accounting estimates and assumptions used in the impairment review are outlined in Note 20 Goodwill.

Amortisation of Customer contracts and relationships

The ability to sell security solutions and consulting relies heavily on the relationships with customers and performance of solutions when in place. Accordingly, the ability to cultivate positive relationships is expected to provide a basis for the generation of future revenue from the renewal of licence fees, upgrades and the up-sale of different solutions. The Group used an independent valuer to consider the Purchase Price Allocation in a business combination.

The attrition rate of the relationships have been estimated by management to determine the amortisation rate of the Customer contracts and relationships. The estimate is based on past experience and expected impacts of the market maturing and both customers and supply being more stable. Accordingly management has estimated an amortisation period of 10 years for customer contracts and relationships.

20. GOODWILL

Goodwill balances and goodwill acquired during the year through business acquisitions is as follows:

	2021 $'000	2020 $'000
Non-current assets		
Goodwill - at cost	**83,259**	16,742
Less: Impairment	**–**	(777)
	83,259	15,965

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Total $'000
Balance at 1 July 2019	–
Additions through business combinations	16,742
Impairment of assets	(777)
Balance at 30 June 2020	15,965
Additions through business combinations (Note 39)	**66,738**
Additional amount recognised from prior year business combination*	**557**
Balance at 30 June 2021	**83,259**

* As disclosed in the half year accounts, goodwill contains a prior year adjustment of $557k to the correct the valuation of share consideration issued in respect of the acquisition of the North BDT (acquired in December 2019).

	2021 $'000	2020 $'000
Goodwill acquired through business combinations has been allocated to the following cash-generating units (CGU's):		
Tesserent Commercial	**56,022**	11,264
Tesserent Federal	**21,972**	4,701
Tesserent New Zealand	**5,265**	–
	83,259	15,965

20. GOODWILL (CONTINUED)

Tesserent Commercial CGU - comprises the Group's core customer offerings Defend, Cloud and Detect customer service offerings.

Tesserent Federal CGU – comprises the North Security, Ludus and Seer Security business combinations.

Tesserent New Zealand CGU – comprises the newly acquired Lateral business combination plus the newly incorporated Tesserent NZ entity to cross sell services from the Australian CGU's segment into Lateral and new NZ customers.

Significant Accounting Policies

Recognition and measurement

Goodwill arises on the business combinations. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Goodwill arising on business combinations represents the excess of the consideration transferred, the amount of any non- controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired.

Gains and losses on the disposal of subsidiaries, joint ventures and associated companies include the carrying amount of goodwill relating to the entity sold.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Critical accounting estimates and assumptions

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 12 month budget approved by the Board and management and extrapolated for a further 4 years using steady growth rates, risk based discount rates and a terminal value (represents the 'Base case' forecasts).

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

Input	Tesserent Commercial	Tesserent Federal	Tesserent New Zealand
Forecast period	5 yrs from 1 Jul-21	5 yrs from 1 Jul-21	5 yrs from 1 Jul-21
Projections	Base case	Base case	Base case
CGU carrying value of net assets (A$'000)	70,516	28,229	7,593
Revenue growth rate - post year 1	12.0%	11.3%	11.3%
EBITDA as a % of revenue	10.2%	16.5%	24.3%
Discount rate (post-tax, nominal)	14.0%	14.0%	14.0%
Terminal growth rate	2.9%	2.7%	3.0%
Calculated value in use (A$'000)	78,778	45,014	10,270

The discount rates reflect management's estimate of the time value of money and the consolidated entity's weighted average cost of capital adjusted for the Group, the risk free rate and the volatility of the share price relative to market movements.

Management believes the projected revenue growth rates in each CGU are appropriate based on experience and forecasts of the growth of the market for cyber security services and the Group's share of the market.

Based on the value in use estimates using a discounted cash flow model, the carrying values of the CGUs, and the Goodwill therein, are not impaired.

Corporate costs (overheads) have been allocated to the CGU's on the basis of proportion of turnover generated by each CGU.

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20. GOODWILL (CONTINUED)

Sensitivities

As noted above, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The key sensitivities that management has considered are as follows:

- Revenue would need to decrease by more than 2% CAGR over the forecast period before goodwill in the Tesserent Commercial CGU would need to be impaired, with all other assumptions remaining constant.
- The discount rate would be required to increase by 1.3% before goodwill in the Tesserent Commercial CGU would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of Tesserent Commercial CGU's goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

The value in use estimates for the Tesserent Federal and Tesserent New Zealand CGU's exceeds the carrying value of the CGUs by a significant amount. It is therefore not considered particularly sensitive to the variances in inputs in these CGU's.

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2021 $'000	2020 $'000
Non-current assets		
Investment in TrustGrid	4,676	–
Investment in AttackBound	1,191	–
	5,867	–
Represented by:		
Cash paid	3,000	–
Share consideration - issued capital	1,367	–
Deferred consideration - call options for TGrid and ABound	1,500	–
	5,867	–

Equity investments

In addition to the controlling acquisitions identified above, during the year TNT entered into two investments, being:

Investment	Investment Date
25% stake in TGrid Holdings Pty Ltd	16 June 2021
25% stake in AttackBound Holdings Pty Ltd	16 June 2021

Under Accounting Standard AASB 128 *Investments in Associates and Joint Ventures* it is determined that the 25% stake in each of these entities, plus representation on the board of each business, results in Tesserent having significant influence.

The Group has accounted for each of these investments by the application of the equity method when accounting for investments in associates.

No material trading or profit/loss has been made by the investment entities during the 14 days that these investments were held by Tesserent for financial year ended 30 June 2021, so TNT has reported the carrying value of the investments at cost as at 30 June 2021. The $5.8m investment disclosed above includes call options of $2m for TrustGrid and $1m for AttackBound.

The call options give TNT the right to acquire additional shares in either TrustGrid or AttackBound to maintain TNT's 25% share holding in the relevant business – in the event that a business raises additional capital by issuing new shares.

The right to acquire these additional shares is essentially drawn down against amounts paid (or payable) under the Cash consideration plus Deferred Cash consideration for grant of Option Instrument. The pricing of these additional shares is to be equivalent to the share price applied to the applicable capital raise.

The Options have a two year Exercise Period from the date of completion of the Convertible Note Deeds – being 16 June 2021.

21. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

As at 30 June 2021, the assessed carrying value of these options (financial instruments) is equal to the cost of the options under the Convertible Note Deed (i.e. Cash consideration plus Deferred Cash consideration for grant of Option Instrument).

Joint ventures

During the year TNT also entered into a joint venture arrangement with New Zealand-headquartered security firm, Optic Security Group.

The Joint venture is managed through a newly incorporated entity, Optic TNT Security Pty Ltd, which is 50/50 jointly owned with Optic Security Group. The initial investment into the joint venture was a nominal amount of $50, representing issued capital.

No material activities, or trading or profit/loss has been made by the joint venture entity during the financial year ended 30 June 2021, so TNT has reported the carrying value of the investment in the joint venture – at cost at 30 June 2021.

Significant Accounting Policy

Associates

Associates are entities over which the consolidated entity has significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the consolidated entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The consolidated entity discontinues the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the consolidated entity's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduce the carrying amount of the investment.

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22. TRADE AND OTHER PAYABLES

	2021 $'000	2020 $'000
Current liabilities		
Trade payables	**17,534**	3,383
Other payables	**11,439**	4,087
	28,973	7,470

Significant Accounting Policies

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

Financial Instrument Risk Management

The main risks arising from trade and other payables is liquidity risk. The Directors manage risk by monitoring levels of obligation arising from liabilities and commitments and consider cash requirements in relation to ongoing cash flow budgets.

Liquidity Risk

All payables are current and payable within 30 days. Accordingly, management has ensured that the Company has sufficient cash resources to meet the liabilities as and when they are due.

23. CONTRACT LIABILITIES

	2021 $'000	2020 $'000
Current liabilities		
Contract liabilities	**7,335**	2,651
Non-current liabilities		
Contract liabilities	**1,179**	129

Reconciliation

Reconciliation of the written down values at the beginning and end of the current and previous financial year are set out below:

	2021 $'000	2020 $'000
Opening balance	**2,780**	–
Additions	**15,420**	2,344
Additions through business combinations (Note 39)	**579**	436
Transfer to revenue	**(10,265)**	–
Closing balance	**8,514**	2,780

Contract liabilities relate to amounts that the Group will be required to pay to various Vendors in the future from prior Software, Licensing and Software Subscription sales and amounts allocated to the performance obligations that are unsatisfied at the end of the reporting period. See Note 12 for contract assets.
At 30 June 2021, total amounts required to be paid to vendors was $4.3m and amounts expected to be recognised as revenue in future reporting periods was $4.2m.

23. CONTRACT LIABILITIES (CONTINUED)

	2021 $'000	2020 $'000
Within 6 months	**5,346**	2,651
6 to 12 months	**1,990**	–
12 to 18 months	**465**	129
18 to 24 months	**713**	–
	8,514	2,780

24. LEASE LIABILITIES

	2021 $'000	2020 $'000
Current liabilities		
Lease liability	**2,390**	1,046
Non-current liabilities		
Lease liability	**5,078**	3,489

Movement in Lease Liability

	2021 $'000	2020 $'000
Balance as at 1 July	**4,536**	102
Adoption of AASB 16	**–**	1,666
Acquired in a business combination (net of amounts settled through completion accounts)	**4,506**	3,371
Cash Payments	**(1,755)**	(751)
Interest Expense	**181**	148
Balance as at 30 June	**7,468**	4,536

Refer to Note 28 for further information on financial instruments.

Significant Accounting Policies

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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25. PROVISIONS

	2021 $'000	2020 $'000
Current liabilities		
Annual leave	**2,368**	665
Long service leave	**463**	178
	2,831	843
Non-current liabilities		
Long service leave	**525**	499
Lease make good	**150**	167
	675	666

Lease make good
The provision represents the present value of the estimated costs to make good the premises leased by the group at the end of the respective lease terms.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

2021	Lease make good $'000
Carrying amount at the start of the year	**167**
Premises vacated	**(17)**
Carrying amount at the end of the year	**150**

Amounts not expected to be settled within the next 12 months
The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

Significant Accounting Policies

Recognition and measurements
Provisions are recognised when the Group has a legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Employee Benefits

The current portion of this liability includes all of the accrued annual leave and the unconditional entitlements to long service leave where employees have completed the required period of service

Long service leave
The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to their net present value at the end of the reporting period using corporate bond rates.

Retirement benefit obligations
The Group makes payments to employees' superannuation fund in line with the relevant superannuation legislation. Contributions made are recognised as expenses when they arise.

26. INCOME TAX PAYABLE

	2021 $'000	2020 $'000
Current liabilities		
Provision for income tax	**172**	–

The tax payable of $171,973 relates to the business Lateral Security Pty Ltd which is based in New Zealand and therefore not part of the Australian tax consolidated group.

27. DEFERRED SETTLEMENT LIABILITIES

	2021 $'000	2020 $'000
Current liabilities		
Deferred settlement liability	**11,699**	4,714
Non-current liabilities		
Deferred settlement liability	**1,652**	686
Reconciliation		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening balance	**5,401**	352
Contingent consideration from business acquisitions plus investments	**18,955**	5,771
Adjustment on completion	**(3,119)**	(652)
Payments	**(5,778)**	(70)
Movements to issued capital	**(2,108)**	–
Closing balance	**13,351**	5,401

Significant Accounting Policies

Recognition and measurement

Deferred settlement liability is recognised when the company has a legal or constructive obligation, as a result of a past event, for which an outflow of economic benefits will result and can be reliably measured. The difference between actual payments and the discounted amount is recognised as a finance cost.

Where the discounted payment is due within 12 months of the reporting date, the deferred settlement liability will be recorded as a current liability. The balance is represented as non-current. Details of deferred settlement liabilities are outlined in Note 39 Business Combinations.

Notes to the Consolidated Financial Statements

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28. BORROWINGS

	2021 $'000	2020 $'000
Non-current liabilities		
Borrowings	**25,603**	3,637

	2021 $'000	2020 $'000
Loan facility	**35,000**	5,000
Fair value of attaching warrants[1]	**(9,498)**	(1,448)
Transaction costs[1]	**(797)**	(138)
	24,705	3,414
Amortisation of finance component (warrants and transaction costs)	**898**	223
	25,603	3,637

1 The fair value of long-term borrowings are based on cash flows discounted using effective market discount rates available to the Group. Finance costs of $10.3m have been recognised to be amortised over the life of the borrowings, which in effect discounts the face value of the borrowings of $35 million. The effective interest rate method is a method calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate method is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or where appropriate shorter period.

Significant Accounting Policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds net of transaction costs and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

29. CONTRIBUTED EQUITY

	2021 Shares	2020 Shares	2021 $'000	2020 $'000
Issued capital	**1,063,018,657**	511,834,114	**100,229**	29,485
Other equity			**2,763**	–
	1,063,018,657	511,834,114	**102,992**	29,485

Contributed equity includes Other equity which represents accrued equity which has been allocated to settle contracts, but has not yet been issued at 30 June 2021.

Movements in ordinary share capital - during the year ended 30 June 2021

Details	Date	Shares	Issue price	$'000
Balance	1 Jul-20	511,834,114		29,485
Issued to Employees	10 Jul-20	343,750	$0.084	29
Shares issued on conversion of convertible notes	28 Jul-20	2,000,000	$0.050	100
Shares issued on conversion of options	28 Jul-20	11,100,000	$0.100	1,110*
Shares issued as consideration in business combination	31 Jul-20	70,000,000	$0.208	14,562
Shares issued on conversion of convertible notes	3 Aug-20	2,000,000	$0.050	100
Shares issued on conversion of options	6 Aug-20	300,000	$0.050	15
Shares issued on conversion of convertible notes	6 Aug-20	4,231,200	$0.050	212
Shares issued on conversion of options	7 Aug-20	9,000,000	$0.100	900
Shares issued on conversion of convertible notes	14 Aug-20	13,189,300	$0.050	659*
Shares issued on conversion of options	14 Aug-20	1,800,000	$0.100	180
Shares issued on conversion of options	20 Aug-20	1,200,000	$0.100	120
Shares issued on conversion of performance rights	2 Sep-20	2,000,000	–	–
Shares issued on conversion of warrants	2 Sep-20	25,000,000	$0.100	2,510*
Shares issued on conversion of options	2 Sep-20	750,000	$0.100	75*
Shares issued on conversion of warrants	8 Sep-20	24,586,777	$0.079	1,938*
Shares issued on conversion of convertible notes	18 Sep-20	10,000,000	$0.050	500
Shares issued on conversion of convertible notes	21 Sep-20	2,071,720	$0.050	104
Shares issued as consideration in business combination	21 Sep-20	6,923,077	$0.208	1,440
Shares issued as consideration in business combination	21 Sep-20	4,333,333	$0.215	932
Shares issued as consideration in business combination	21 Sep-20	4,333,333	$0.215	932
Shares issued on conversion of performance rights	21 Sep-20	2,000,000	–	–
Equity Settled expense	21 Sep-20	8,000,000	$0.050	400
Shares issued as consideration in business combination	23 Sep-20	39,701,333	$0.194	7,694
Shares issued on conversion of convertible notes	24 Sep-20	3,100,493	$0.050	155
Shares issued on conversion of warrants	24 Sep-20	1,458,334	$0.120	175*
Shares issued on conversion of performance rights	24 Sep-20	4,000,000	–	–
Shares issued as consideration in business combination	30 Sep-20	4,440,410	$0.224	995

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for the year ended 30 June 2021

29. CONTRIBUTED EQUITY (CONTINUED)

Details	Date	Shares	Issue price	$'000
Shares issued on conversion of performance rights	5 Oct-20	4,000,000	–	–
Shares issued as consideration in business combination	5 Oct-20	1,000,000	$0.220	220
Shares issued as consideration in business combination	5 Oct-20	1,000,000	$0.220	220
Shares issued on conversion of convertible notes	5 Oct-20	5,401,639	$0.050	270
Shares issued as consideration in business combination	23 Oct-20	248,888	$0.194	48
Shares issued on conversion of convertible notes	23 Oct-20	10,852,504	$0.050	543
Shares issued on conversion of options	26 Oct-20	300,000	$0.100	30*
Equity Settled expense	27 Oct-20	11,001,600	$0.050	550
Shares issued on conversion of convertible notes	5 Nov-20	2,177,049	$0.050	109
Shares issued on conversion of options	5 Nov-20	600,000	$0.100	60*
Shares issued as consideration in business combination	11 Nov-20	34,593,950	$0.250	8,635
Shares issued on conversion of options	11 Nov-20	500,000	$0.050	25*
Shares issued on conversion of options	11 Nov-20	500,000	$0.280	140*
Shares issued on conversion of warrants	27 Nov-20	12,000,000	$0.120	1,440*
Shares issued on conversion of warrants	30 Nov-20	9,583,334	$0.120	1,150*
Shares issued on conversion of options	30 Nov-20	178,500	$0.280	50*
Shares issued on conversion of convertible notes	30 Nov-20	193,989	$0.050	10
Shares issued as consideration in business combination	30 Nov-20	1,466,000	$0.355	520
Shares issued as consideration in business combination	30 Nov-20	1,466,000	$0.355	520
Shares issued on conversion of options	3 Dec-20	10,000,000	$0.050	500
Shares issued on conversion of performance rights	4 Dec-20	4,000,000	–	–
Equity Settled expense	4 Dec-20	4,309,298	$0.175	752
Shares issued on conversion of options	4 Dec-20	150,000	$0.100	15*
Shares issued as consideration in business combination	10 Dec-20	20,071,652	$0.069	1,379
Shares issued on conversion of options	10 Dec-20	71,500	$0.280	20*
Shares issued as consideration in business combination	10 Dec-20	1,334	$0.355	0
Shares issued on conversion of warrants	10 Dec-20	729,167	$0.120	88*
Shares issued on conversion of convertible notes	14 Dec-20	61,825,622	$0.050	3,091
Shares issued on conversion of convertible notes	16 Dec-20	26,400,000	$0.050	1,320
Shares issued on conversion of performance rights	16 Dec-20	4,000,000	–	–
Shares issued on conversion of options	15 Jan-21	1,000,000	$0.100	100
Shares issued on conversion of options	8 Feb-21	300,000	$0.100	30
Shares issued on conversion of options	12 Feb-21	1,000,000	$0.075	75
Shares issued on conversion of options	12 Feb-21	1,000,000	$0.100	100

29. CONTRIBUTED EQUITY (CONTINUED)

Details	Date	Shares	Issue price	$'000
Shares issued on conversion of convertible notes	16 Feb-21	3,255,738	$0.000	0
Shares issued as consideration in business combination	18 Mar-21	5,871,990	$0.350	2,055
Equity Settled expense	16 Apr-21	3,000,000	$0.075	225
Shares issued on conversion of warrants	16 Apr-21	729,167	$0.120	88
Shares issued as consideration in business combination	28 Apr-21	42,145,974	$0.223	9,377
Equity Settled expense (accrued - shares issue deferred)	30 Apr-21	–	–	1,228
Shares issued as consideration in business combination	15 Jun-21	5,970,149	$0.214	1,276
Shares issued as consideration in business combination	15 Jun-21	426,439	$0.214	91
Equity Settled expense (accrued - shares issue deferred)	30 Jun-21	–	–	1,535
Cost of issuing equity				(216)
Balance	**30 Jun-21**	**1,063,018,657**		**102,992**

* indicates issued capital that has a corresponding cash inflow during FY21

Movements in ordinary share capital - during the year ended 30 June 2020

Details	Date	Shares	Issue price	$'000
Balance	1 July 2019	183,043,123		13,755
Shares issued pursuant to capital raising	11 July 2019	40,111,113	$0.04	1,805
Share issued as consideration in business combination	11 July 2019	17,550,000	$0.04	772
Shares issued pursuant to capital raising	23 July 2019	6,250,000	$0.04	250
Shares issued pursuant to capital raising	23 July 2019	1,000,000	$0.04	45
Shares issued to employees	23 July 2019	555,556	$0.04	23
Equity settled expense	23 July 2019	180,000	$0.05	9
Equity settled expense	16 Sep 2019	1,590,000	$0.05	80
Shares issued to employees	16 Sep 2019	1,000,000	$0.04	45
Equity settle expense	17 Oct 2019	600,000	$0.05	30
Conversion of options	18 & 25 Oct 2019	2,500,000	$0.05	125
Equity settled expense	2 Dec 2019	6,583,333	$0.04	310
Shares issued to employees	2 Dec 2019	185,185	$0.05	9
Shares issues as consideration in business combination	16 Dec 2019	100,000,000	$0.05	5,000
Shares issued to employees	16 Dec 2019	2,000,000	$0.05	96
Conversion of options	16 Dec 2019	2,000,000	$0.05	96
Equity settled payments	8 Jan 2020	3,798,169	$0.06	226
Conversion of options	22 Jan 2020	20,198,112	$0.05	1,010

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for the year ended 30 June 2021

29. CONTRIBUTED EQUITY (CONTINUED)

Details	Date	Shares	Issue price	$'000
Equity settled expense / Conversion of convertible note	22 Jan 2020	27,400,000	$0.05	1,370
Shares issued to employees	22 Jan 2020	1,000,000	$0.08	85
Conversion of options	2 Mar 2020	24,764,671	$0.05	1,238
Conversion of convertible note / Conversion of options	2 & 10 & 13 Mar 2020	23,277,777	$0.05	1,164
Shares issued as consideration in business combination / Conversion of convertible notes / Equity settled payments	9 Apr 2020	44,247,075	$0.05	2,172
Conversion of convertible note	27 Apr 2020	2,000,000	$0.05	100
Cost of issuing equity	–	–	$0.00	(330)
Balance	30 June 2020	511,834,114		29,485

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

30. CONVERTIBLE NOTES

	2021 $'000	2020 $'000
Convertible notes	–	6,532
Convertible notes at the start of year	**6,532**	9,434
Convertible notes issued	–	(451)
Distributions to convertible note holders	**190**	324
Notes converted to equity	**(6,721)**	(2,775)
	–	6,532

Tesserent has borrowed under a convertible note with a face value of $6,531,698 with the following terms:

- Conversion during year one to 160,000,000 ordinary Tesserent shares at $0.05 per share. Conversion during year two to 113,266,666 ordinary Tesserent shares at $0.075 per share.
- Automatic conversion at the end of two to 84,950,000 ordinary Tesserent shares at $0.10 per share.
- 1 option to be issued for every for 3.33 shares subscribed for (exercisable at $0.10) – Interest rate of 8% (cash) or 10% if paid in shares (at the Company's discretion).

As the above conversion feature results in the conversion of a fixed amount of the stated principal into a fixed number of shares, it satisfies the "fixed for fixed" criterion and, therefore, it is classified as an equity instrument.

The convertible notes are unsecured.

During the year ended 30 June 2021, Tesserent has converted all available convertible notes to equity at $0.05 per share. Interest was converted to equity at $0.10 per share.

31. RESERVES

	2021 $'000	2020 $'000
Share-based payments reserve	**9,565**	1,516
Options reserve	**4,315**	635
Tax consolidation reserve	**(2,710)**	(310)
Translation reserve	**30**	–
	11,200	1,841

Nature and purpose of Reserves

Share-based payments reserve

This reserve is used to recognise the value of share based payments issued to employees and directors as part of their remuneration, plus share based payments issued to third parties as compensation for their services.

Options reserve

The options reserve is used to recognise the value of options issued to employees and directors as part of their remuneration, plus any options and warrants issued to third parties as compensation for their services.

Tax consolidation reserve

This reserve is used to recognise the movement of deferred tax liabilities that arise through the equity account – primarily as a result of the warrants attached to the PAM debt facilities which are amortised through application of the effective interest rate method.

Translation reserve

This reserve is used to record exchange differences that arise from the translation of the financial statements of controlled foreign subsidiaries.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

31. RESERVES (CONTINUED)

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

	Total $'000
Balance at 1 July 2019	773
Share based compensation recognised during the year	1,781
Share options expired during the year	(403)
Deferred tax	(310)
Balance at 30 June 2020	1,841
Warrants issued on new PAM Finance Facilities (net)	8,050
Share options issued	4,213
Share options expired during the year	(365)
Share options exercised during the year	(169)
Foreign currency translation	30
Deferred tax	(2,400)
Balance at 30 June 2021	**11,200**

(a) Share based payments

Share based payments included during the period are as follows:

Description	Expenses $000	Liabilities $000	Other capital $000
Share-based payments reserve			
Warrants issued to PAM in respect of new facilities	–	9,498	–
Exercise of PAM Warrants in accordance with exercise rights	–	–	(1,448)
Subtotal	–	9,498	(1,448)
Net movement in Share-based payments reserve	**–**	**–**	**8,050**

Description	Expenses $000	Liabilities $000	Other capital $000
Options Reserve			
Performance rights expense during the year	174	–	–
Conversion of performance rights into issued capital	–	–	(249)
ESOP and NED Options expense during the year	4,288	–	–
Conversion of options into issued capital	–	–	(168)
Transfer to retained earnings	–	–	(365)
Subtotal	4,462	–	(783)
Net movement in Options reserve	**–**	**–**	**3,680**

Description	Expenses $000	Liabilities $000	Other capital $000
Foreign currency translation reserve movement	**–**	**–**	**30**

Description	Expense $000	Liabilities $000	Other capital $000
Recognise deferred tax liability on PAM facility warrants	**–**	**–**	**2,400**

31. RESERVES (CONTINUED)

In addition to share options issued during the year, the Group issued ordinary shares as payments, as follows:

Description	Expense $000	Capital raised $000	Other equity $000
Payments to employees	278	–	–
Payment to contractors to settle invoices	1,703	–	–
Total value of shares issued as payments	**–**	**–**	**1,981**
Contractors invoices accrued by capital not yet issued	1,535	–	–
Total value of shares to be issued as payments	**–**	**–**	**1,535**

Valuation

The Group has issued options during the year. The options were valued using a Black-Scholes Pricing model. During the year, the following options were issued with the following inputs:

	NED options	Share Options ESOP Series 1	ESOP Series 2
No. issued	12,000,000	19,120,000	17,870,000
Grant Date	16 Sep-20	16 Sep-20	16 Sep -20
Expiry Date	16 Sep-25	16 Sep -23	16 Sep -23
Terms (days)	1,826	1,095	1,095
Exercise price (cents)	$0.250	$0.285	$0.350
Share price at grant date (cents)	$0.240	$0.240	$0.240
Volatility	107%	107%	107%
Risk free rate	0.4%	0.1%	0.1%
Dividend yield	0.0%	0.0%	0.0%
Early exercise multiple	2.0	2.0	2.0
Value per option	$0.18	$0.11	$0.12
Total cost	$2,208,000	$2,022,755	$2,061,449
Cost recognised	$258,566	$2,022,755	$1,475,505
Value forfeited*	$552,000	–	$184,573
Future costs*	**$1,397,434**	**–**	**$401,371**

* Future costs for options adjusted as some options were forfeited during the year ended 30 June 2021.

In addition to the options noted above, there were an additional 3 million non-executive director options and 1 million executive options which were approved by the board but not yet issued as at 30 June 2021.

These options were valued and the expense of issuing these options has been accrued in the financial results and is set out in the Remuneration Report. The 3 million Non-executive director options and 1 million executive options were valued using the Black-Scholes Pricing model as per the metrics above, but based on 5 year expiry and exercise price of $0.21 and $0.24 respectively.

Notes to the Consolidated Financial Statements

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31. RESERVES (CONTINUED)

Significant Accounting Policies - share based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity- settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Key assumptions

Equity-settled share-based compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and directors in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

An independent valuation was prepared for each tranche of options and rights granted during the year. The values were estimated using the Black-Scholes option valuation model. The inputs used in the model to estimate the values are identified in the tables above. The key estimates used in the model are the volatility, which is estimated with reference to a broad set of ASX listed comparable companies, and the risk-free rate, which is estimated with reference to Government bond rates.

The expense recognised for options granted prior to 1 July 2019 is $188,128. The cost recognised reflects the amortisation of the expense over the vesting period of the options granted and is based upon an independent valuation that was prepared. The valuation was prepared using the Black Scholes valuation model and the key inputs were as follows:

Risk free rate	0.2 – 0.4%
Volatility	107% & 109%

31. RESERVES (CONTINUED)

Options, Warrants and Convertible Note movements

Set out below are summaries of options ,warrants and convertible note movements during the year:

Description	Expiry date	Exercise price $	Balance 1-Jul	Granted	Exercised	Expired/ Forfeited/ other	Balance 30-Jun
Options							
Call options - investor	03/12/2020	0.05	10,000,000	–	(10,000,000)	–	–
Broker options	19/03/2021	0.10	1,100,000	–	(1,100,000)	–	–
Broker options	29/03/2021	0.10	500,000	–	(500,000)	–	–
Employee options	19/04/2021	0.08	3,000,000	–	(3,000,000)	–	–
Broker options	22/07/2021	0.05	800,000	–	(800,000)	–	–
Performance rights	03/10/2021		20,000,000	–	(20,000,000)	–	–
Chairman options	30/11/2021	0.10	1,000,000	–	(1,000,000)	–	–
Chairman options	30/11/2021	0.13	1,000,000	–	(1,000,000)	–	–
Chairman options	30/11/2021	0.15	1,000,000	–	(1,000,000)	–	–
NED Options	30/11/2021	0.10	1,000,000	–	(500,000)	–	500,000
NED Options	30/11/2021	0.13	1,000,000	–	(500,000)	–	500,000
NED Options	30/11/2021	0.15	1,000,000	–	(500,000)	–	500,000
Employee options	29/11/2022	0.08	1,000,000	–	(1,000,000)	–	–
Employee options	29/11/2022	0.10	1,000,000	–	(1,000,000)	–	–
Employee Options	01/03/2022	0.10	300,000	–	–	–	300,000
Employee Options	06/04/2024	0.35	–	1,250,000	–	–	1,250,000
Employee Options	06/04/2024	0.28	–	1,500,000	–	–	1,500,000
Employee Options	01/01/2024	0.35	–	3,000,000	–	–	3,000,000
Employee Options	01/01/2024	0.28	–	3,750,000	–	–	3,750,000
Converting Note Options	01/10/2022	0.10	50,370,000	–	(23,600,000)	–	26,770,000
Employee Options	29/11/2022	0.13	1,000,000	–	–	–	1,000,000
Converting Note Options	01/10/2022	0.10	3,832,500	–	–	–	3,832,500
NED Options	21/09/2015	0.25	–	12,000,000	–	(3,000,000)	9,000,000
Converting Note Options	01/10/2022	0.10	1,800,000	1,200,000	–	–	3,000,000
Call Options	16/12/2021	0.08	1,000,000	–	–	–	1,000,000
Employee Options	20/04/2024	0.35	–	1,670,000	–	–	1,670,000
Employee Options	20/04/2024	0.28	–	1,670,000	–	–	1,670,000
Employee Options	02/11/2023	0.35	–	12,771,500	–	–	12,771,500
Employee Options	02/11/2023	0.28	–	12,200,000	–	–	12,200,000
			101,702,500	51,011,500	(65,500,000)	(3,000,000)	84,214,000

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31. RESERVES (CONTINUED)

Description	Expiry date	Exercise price $	Balance 1-Jul	Granted	Exercised	Expired/ Forfeited/ other	Balance 30-Jun
Warrants							
Acquisition Warrants	06/12/2022	0.06	49,586,777	–	(49,086,777)	–	500,000
Warrants issued to Pure Asset Management	30/09/2022	0.08	25,000,000	–	–	(25,000,000)	–
Warrants issued to Pure Asset Management	18/09/2024	0.12	–	43,750,003	–	–	43,750,003
Warrants issued to Pure Asset Management	07/05/2025	0.45	–	44,444,445	–	–	44,444,445
			74,586,777	88,194,448	(49,086,777)	(25,000,000)	88,694,448
Convertible Notes							
NOT - Convertible	16/12/2021	–	938,750	–	(938,750)	–	–
NT1 - Convertible	16/12/2021	–	5,620,000	–	(5,620,000)	–	–
		–	6,558,750	–	(6,558,750)	–	–
TOTAL Options, Warrants and Convertible Notes			**182,848,027**	**139,205,948**	**(121,145,527)**	**(28,000,000)**	**172,908,448**

32. DIVIDENDS

There were no dividends paid, recommended or declared during the current or previous financial year.

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the company commits itself to either the purchase or sale of the asset.

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. The Company has no financial instruments classified as "at fair value through profit or loss".

Classification and subsequent measurement

The Company classifies its financial instruments based on the purpose for which the instrument were acquired. Management determines the classification of its financial instruments at the time of initial recognition. The Company's principal financial instruments comprise receivables, payables, cash and short term deposits.

At the reporting date, the Company's financial instruments were classified within the following categories.

Cash and cash equivalents - financial assets at amortised cost

See Note 9.

Receivables at amortised cost

See Note 11.

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (CONTINUED)

Financial liabilities at amortised cost

All of the Company's financial liabilities are recognised and subsequently measured at amortised cost, using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimate future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

Impairment of financial assets at amortised cost

The Company considers all financial assets for recoverability and impairment. Where there are indicators of impairment the Company will review the carrying amount of the financial asset and estimate its recoverable amount. The Company will take all available action to recover the full amount of financial assets, and once all efforts are exhausted the Company will record an impairment. Any impairment is recorded in a separate allowance account. Any amounts subsequently written off are offset against the impairment allowance.

Financial Risk Management

The company manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Company's financial risk management policy. The object of the policy is to support the delivery of the Company's financial targets whilst protecting future financial security.

The main risk arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company manages its risk informally at Board level. The Board monitors levels of exposure to interest rate and credit risk by banking with reputable banks. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks informally.

Primary responsibility for identification and control of financial risks rests with the Board of Directors ('the Board'). The Board reviews and agrees policies for managing each of the risks identified below, including interest rate risk, credit allowances, forward exchange contracts and future cash flow forecast projections.

The carrying amounts and fair values of the Company's financial assets and liabilities at reporting date are:

	2021 Carrying Value $'000	2021 Fair Value $'000	2020 Carrying Value $'000	2020 Fair Value $'000
Financial Assets				
Cash and cash equivalents	**14,860**	14,860	**4,350**	4,350
Trade and other receivables	**24,799**	24,799	**7,423**	7,423
Non-Traded Financial Assets	**39,659**	39,659	**11,772**	11,772
Financial Liabilities at amortised cost				
Trade and other payables	**28,973**	28,973	**7,469**	7,469
Other financial liabilities*	**13,351**	13,351	**5,400**	5,400
Lease liabilities	**7,468**	7,468	**4,536**	4,536
Borrowings	**25,603**	25,603	**3,637**	3,637
Non-Traded Financial Liabilities	**75,395**	75,395	**21,042**	21,042

* Other financial liabilities are deferred settlement liabilities. See Note 27.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the Group's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (CONTINUED)

In order to protect against foreign exchange rate movements, Airloom Holdings Pty Ltd has entered into forward exchange contracts. These forward contracts are hedging highly probably cash outflows for payments to vendors from the ensuing financial year. Management has a risk management policy to hedge between 80% and 95% of anticipated foreign currency transactions for the subsequent 3 months.

The maturity, settlement amounts and the average contractual exchange rates of the group's outstanding forward foreign exchange contracts at the reporting date were as follows:

	Sell Australian dollars	Average exchange rates	
	2021 $'000	2021	2020
Buy US dollars			
Maturity:			
0 - 3 months	6,488	0.7669	–
6 - 9 months	77	0.7389	–

The Group is exposed to foreign currency risk via its cash and cash equivalents, trade receivables, contract assets, trade payables and contract liabilities as part of its normal business.

The Group incurs foreign currency expenses predominantly in USD and NZD.

The holdings of cash and cash equivalents, trade receivables, contract assets, trade payables and contract liabilities analysed by nominated currency at 30 June 2021, along with prior year comparatives, were as follows:

30 June 2021	Denominated in AUD $'000	Denominated in USD $'000	Denominated in NZD $'000
Financial Assets			
Cash and cash equivalents	14,466	4	389
Trade and other receivables	21,590	2,571	638
Contract assets	8,734	678	–
	44,791	3,254	1,027
Financial Liabilities			
Trade and other payables	20,099	8,730	151
Contract liabilities	5,236	3,277	–
	25,336	12,007	151

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (CONTINUED)

A hypothetical 10% strengthening in the exchange rate of the Australian dollar (A$) against the New Zealand dollar (NZ$) of the Parents' overseas subsidiary Lateral Security Pty Ltd with all other variables held constant would have an unfavourable effect of ($50,330) on the loss and equity for the 2021 financial year.

30 June 2020	Denominated in AUD $'000	Denominated in USD $'000
Financial Assets		
Cash and cash equivalents	4,350	–
Trade and other receivables	7,282	141
Contract assets	938	–
	12,570	141
Financial Liabilities		
Trade and other payables	7,330	139
Contract liabilities	2,780	–
	10,110	139

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

Exposure to interest rate risk arises on financial instruments whereby a future change in interest rate will affect future cash flows or the fair value of the fixed rate financial instruments. The Company is also exposes to earnings volatility on floating rate instruments. At reporting date, the Company's exposure to interest rate risk was wholly related to cash and cash equivalents and its disclosed in Note 9.

Interest rate risk is managed by monitoring the level of floating rate which the Group is able secure. It is the policy of the Group to keep the majority of its cash in accounts with floating interest rates.

Sensitivity analysis

During the current year the interest paid was $4.4m. Much of the interest relates to the PAM facility and is based on a fixed rate, and interest on lease liabilities. As such, management does not consider sensitivity to interest rates to be a useful measure of risk to the result or the overall financial statements.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises from the financial assets of the Company, which comprises cash and cash equivalents and trade and other receivables. The Company has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Company obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. Exposure at reporting date in relation to cash and cash equivalents is discussed in Note 9.

Credit risk relating to trade and other receivables is discussed in Note 11. The Group has no significant concentrations of credit risk in any one customer.

Liquidity risk

Liquidity Risk is the risk that the Company, although Statement of Financial Position solvent, cannot meet or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

The Board manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (CONTINUED)

Remaining contractual maturities

The following tables detail the group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

2021	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	28,973	–	–	–	28,973
Other financial liabilities	–	11,699	1,652	–	–	13,351
Other liabilities	–	7,335	1,179	–	–	8,514
Interest-bearing - variable						
Borrowings	8.90%	–	–	15,000	–	15,000
Borrowings	8.50%	–	–	20,000	–	20,000
Lease liability	4.00%	2,390	1,949	2,362	767	7,468
Total non-derivatives		**50,397**	**4,780**	**37,362**	**767**	**93,306**

2020	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	7,470	–	–	–	7,470
Other financial liabilities	–	4,714	686	–	–	5,400
Other liabilities	–	2,651	129	–	–	2,780
Interest-bearing - variable						
Borrowings	9.90%	–	–	3,000	–	3,000
Borrowings	11.50%	–	–	2,000	–	2,000
Lease liability	4.00%	1,046	950	1,315	784	4,095
Total non-derivatives		**15,881**	**1,765**	**6,315**	**784**	**24,745**

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

34. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by BDO, the auditor of the company:

	2021 $	2020 $
Audit services - BDO		
Audit or review of the financial statements	**726,654**	327,924
Other services - BDO		
Preparation of the tax return	**26,538**	41,750
Due diligence	**575,041**	118,000
	601,579	159,750
	1,328,233	487,674

It is the company's policy to engage BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Company are important. During the year, the Company engaged BDO in providing services in relation to tax compliance services and due diligence work.

35. CONTINGENT LIABILITIES

There are no other matters which the Group considers would result in a contingent liability as at the date of this report.

36. COMMITMENTS

The Group has no commitments at 30 June 2021.

37. RELATED PARTY TRANSACTIONS

Parent entity

Tesserent Limited is the parent entity.

Key management personnel Compensation

The aggregate compensation of the key management personnel (KMPs) of the Company is set out below:

	2021 $	2020 $
Short term employment benefits	**2,022,550**	1,847,307
Post-employment benefits	**147,926**	162,630
Long term benefits	**42,481**	35,185
Share based payments	**1,076,129**	738,734
	3,289,086	2,783,856

Transactions with related parties

The Company undertook business with Belgravia Group and associated companies that Mr G Lord is a director of and owns an interest in. Products purchased totalled $4,351 (interest relating to insurance premium funding) through Belgravia Finance Pty Ltd. Products and services sold to Belgravia totalled $147,982 being professional services (cyber consulting) to Belgravia Health Pty Ltd of $6,250, and professional services and software subscriptions and support to Belgravia Group Pty Ltd of $141,732.

There were no other transactions with related parties at the current and previous reporting date.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Controlled entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 40 of this report.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

38. PARENT ENTITY INFORMATION

The parent entity in the consolidated entity is Tesserent Limited.

The parent entity in the wholly-owned group is Tesserent Limited.

The ultimate Australian parent entity is Tesserent Limited.

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	2021 $'000	2020 $'000
Loss after income tax	**(10,778)**	(3,833)
Total comprehensive income	**(10,778)**	(3,833)

Statement of financial position

	2021 $'000	2020 $'000
Total current assets	**120,047**	31,126
Total non-current assets	**7,146**	6,977
Total assets	**127,193**	38,103
Total current liabilities	**1,027**	325
Total non-current liabilities	**25,823**	3,857
Total liabilities	**26,850**	4,182
Net assets	**100,343**	33,921

Recoverability of parent entity intercompany assets

The parent entity, Tesserent Limited, has intercompany loans receivable with its subsidiaries. The most material intercompany loan receivable is with Tesserent Cyber Services Pty Ltd representing funds used to acquire subsidiary businesses. The Company is confident that this intercompany asset is recoverable based on the work done on impairment testing. For more detail refer to Note 20.

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for purchase of property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the group, as disclosed in Note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

39. BUSINESS COMBINATIONS

During the year, the Group completed the acquisitions of Seer Security Pty Ltd, Airloom Holdings Pty Ltd, Ludus Information Security Pty Ltd, iQ3 Pty Ltd, Lateral Security (IT) Services Limited (New Zealand) and Secure Logic Pty Ltd. Details of the acquisitions were as follows:

Seer Security Pty Ltd

On 4 August 2020, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Seer Security Pty Ltd for consideration of $20,636,811, with $6,982,965 cash and $13,653,846 in issued share capital, being 76,923,077 shares issued at a fair value of $0.1775 per share. In addition, a cash payment of $1,383,158 was made post-completion as a working capital adjustment.

The cash consideration has been split, with $2.5 million paid on completion, $1.25 million payable 13 months after completion and the final payment of $1.25m, 25 months after completion.

Airloom Holdings Pty Ltd

On 11 September 2020, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Airloom Holdings Pty Ltd for consideration of $23,184,758, with $12,298,323 cash and $10,886,435 in issued share capital, being 39,950,221 shares issued at fair value of $0.2725 per share.

The cash consideration has been split, with $7.50 million paid on completion and $1 million payable 12 months after completion upon achievement of set milestones. Total consideration for the acquisition also includes $3.8m in estimated earnout payments based upon forecast performance of the business.

Ludus Information Security Pty ltd

On 11 September 2020, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Ludus Information Security Pty Ltd for consideration of $2,094,224, with $1,006,324 cash and $1,087,900 in issued share capital, being 4,440,410 shares issued at a fair value of $0.245 per share.

The cash consideration has been split, with $267,750 paid on completion and $267,750 payable 12 months after completion. A cash payment of $156,838 was made post-completion as a working capital adjustment.

Total consideration for the acquisition also includes $0.3m in estimated earnout payments based upon forecast performance of the business.

iQ3 Pty Ltd

On 28 October 2020, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of iQ3 Pty Ltd for consideration of $18,086,895 with $8,634,650 cash and $9,513,336 in issued share capital, being 34,593,950 shares at fair value of $0.275 per share.

The cash consideration has been split, with $4,317,325 paid on completion and four deferred quarterly payments of $1,079,331, payable over a 12-month period after completion. A working capital adjustment of $(61,091) has been estimated for completion accounts.

Lateral Security (IT) Services Limited

On 12 February 2021, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of New Zealand based Lateral Security (IT) Services Limited for consideration of NZ$8,594,502 (A$8.253m), with A$4,163,883 cash, A$2,055,197 in issued share capital, being 5,871,990 shares issued at a fair value of $0.350 per share and a provision for a further A$2,034,204 in share capital being 5,812,014 shares issued at a fair value of $0.350 per share in relation to in estimated earnout payments based upon forecast performance of the business.

The cash consideration has been split, with A$1,068,000 paid on completion and A$970,140 payable 6 months after completion. A cash payment of A$654,838 was made post-completion as a working capital adjustment and a further cash payment of $1,470,904 was made in relation to Lateral meeting agreed earnout targets.

Deferred consideration in respect of Lateral Security includes a component payable in issued capital. The contractual obligation for FY21 Earnout Shares as set out in clause 10.7(b), is to issue 5,812,014 ordinary shares in TNT. These Earnout Shares have been accounted for in line with Accounting Standard AASB132 -in that an instrument that meets requirements for classification as equity and the contractual obligation has been classified as 'Contributed equity'.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

39. BUSINESS COMBINATIONS (CONTINUED)

Secure Logic Pty Ltd

On 28 April 2021, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Secure Logic Pty Ltd for consideration of $17,904,336, with $8,526,857 cash and $9,377,479 in issued share capital, being 42,145,974 shares issued at a fair value of $0.2225 per share.

The cash consideration has been split, with $7,002,139 paid on completion and further $1,524,716 held in escrow pending finalisation of working capital adjustment.

The above business combinations have been initially accounted for on a provisional basis.

Details of the acquisition are as follows:

	Seer Fair value $'000	Airloom Fair value $'000	Ludus Fair value $'000	iQ3 Fair value $'000	Lateral Fair value $'000	Secure Logic Fair value $'000	Total $'000
Cash and cash equivalents	2,493	3,665	210	2,731	758	43	9,900
Trade and other receivables	618	1,639	217	1,328	538	349	4,689
Deposits	46	–	–	104	–	–	150
Contract assets	325	–	–	–	–	48	373
Prepayments	–	52	1	358	–	580	991
Plant and equipment	–	–	–	1,559	37	354	1,950
Right-of-use assets	–	–	–	4,413	–	594	5,007
Deferred tax asset	–	–	–	212	–	–	212
Trade and other payables	(473)	(1,768)	(139)	(1,052)	(249)	(2,869)	(6,550)
Contract liabilities	(320)	–	–	(40)	–	(219)	(579)
Provision for income tax	(709)	(364)	(72)	(246)	(57)	(109)	(1,557)
Employee benefits	(194)	(548)	(19)	(573)	(84)	(414)	(1,832)
Lease liability	–	–	–	(6,019)	–	(695)	(6,714)
Fair value of contracts and relationships acquired	5,320	4,541	415	4,201	2,797	6,300	23,574
Deferred tax liability arising from acquisition	(1,532)	(1,143)	(170)	(1,348)	(751)	(1,814)	(6,758)
Software IP acquired	–	–	–	–	–	569	569
Net assets acquired	5,574	6,071	443	5,628	2,989	2,717	23,422
Goodwill	15,063	17,113	1,651	12,459	5,265	15,187	66,738
Acquisition-date fair value of the total consideration transferred	20,637	23,184	2,095	18,087	8,253	17,904	90,160
Representing:							
Cash paid or payable to vendor	3,883	7,495	425	6,476	1,723	7,002	27,004
Tesserent Limited shares issued to vendor	13,654	10,886	1,088	9,513	2,055	9,377	46,573
Deferred consideration	3,100	4,803	582	2,098	4,475	1,525*	16,583
Total Consideration	20,637	23,184	2,095	18,087	8,253	17,904	90,160
Acquisition-date fair value of the total consideration transferred	3,883	7,495	425	6,476	1,723	8,527*	28,529
Less: cash and cash equivalents acquired	(2,493)	(3,665)	(210)	(2,731)	(758)	(43)	(9,900)
Net cash used	1,390	3,830	215	3,745	965	8,484	18,629

* Note – deferred consideration for Secure Logic has been paid to an intermediary and is held in escrow pending finalisation of completion accounts.

39. BUSINESS COMBINATIONS (CONTINUED)

Significant Accounting Policies – Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Critical Accounting Estimates and Assumptions

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting are retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

At balance date, acquisition accounting had been finalised for Seer, Airloom and Ludus.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2021

40. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in Note 1:

		Ownership interest	
Name	Principal place of business / Country of incorporation	2021 %	2020 %
Pure Security Managed Services Pty Ltd	Australia	**100%**	100%
Tesserent Wholesale Pty Ltd	Australia	**100%**	100%
Tesserent IP Pty Ltd	Australia	**100%**	100%
Tesserent Cyber Services Pty Ltd	Australia	**100%**	100%
Rivium Pty Ltd	Australia	**100%**	100%
Pure Security Pty Ltd	Australia	**100%**	100%
Certitude Pty Ltd	Australia	**100%**	100%
Hacklabs Pty Ltd	Australia	**100%**	100%
Securus Global Pty Ltd	Australia	**100%**	100%
Pure Hacking Pty Ltd	Australia	**100%**	100%
North BDT	Australia	**100%**	100%
Seer Security Pty Ltd[1]	Australia	**100%**	–
Airloom Holdings Pty Ltd[2]	Australia	**100%**	–
Ludus Information Security Pty Ltd[3]	Australia	**100%**	–
iQ3 Pty Ltd[4]	Australia	**100%**	–
Lateral Security (IT) Services Limited[5]	New Zealand	**100%**	–
Secure Logic Pty Ltd[6]	Australia	**100%**	–
Tesserent Cyber Services Limited[7]	New Zealand	**100%**	–

1 Acquired 4 August 2020
2 Acquired 11 September 2020
3 Acquired 11 September 2020
4 Acquired 28 October 2020
5 Acquired 12 February 2021
6 Acquired 28 April 2021
7 Incorporated 14 April 2021

41. EVENTS AFTER THE REPORTING PERIOD

Announcement of brand and business unit integration strategy

On 11 August 2021, Tesserent announced a brand and business unit integration strategy to drive growth in the business, such that, moving forward, TNT will go to market from a single entity with a single customer-facing brand, Tesserent, that incorporates services from TNT's existing business units.

The re-organisation of the go-to-market approach also reflects the evolution of the Group as it integrates the businesses acquired during the last 18 months, and it's consistent with the basis in which the Group's chief operating decision makers manage the business and assess performance.

The Company's new go-to-market approach will be accompanied by a new logo and colour palette – to be announced in the coming weeks following the 11 August 2021 announcement.

41. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

Acquisition of Loop Secure Pty Ltd

Tesserent announced to the market, the acquisition of Loop Secure Pty Ltd following the signing of a Share Purchase Agreement executed between both parties on the 18 August 2021.

Under the terms of the Share Purchase Agreement, TNT Cyber Services Pty Ltd, a subsidiary of Tesserent Limited, acquired 100% of the ordinary shares of Loop Secure Pty Ltd for consideration of $13,500,000, with $7m initial payment of cash and $4.5m in issued share capital, based on 15,946,137 shares at a based on VWAP of $0.2822 per share. Two further deferred consideration payments of $1m are payable six months and twelve months following completion date. Final consideration is also subject to net debt and working capital adjustments and an earnout payment if the business exceeds agree future targets.

Capital Raise

On 24 September 2021, the Group launched and completed a capital raise – via an equity placement with a number of institutional investors, raising $25m to fund future identified acquisitions. An equity capital raise was chosen to optimise the capital structure of the Group and has also had the impact of enhancing Tesserent's visibility in the ASX market.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

42. EARNINGS PER SHARE

	2021 $'000	2020 $'000
Loss after income tax	**(4,533)**	(7,312)
	Number	**Number**
Weighted average number of ordinary shares outstanding during the year used in calculating basic loss per share	**875,632,954**	361,822,054
Weighted average number of ordinary shares and convertible redeemable cumulative preference shares outstanding and performance rights during the year used in calculating diluted earnings per share	**875,632,954**	361,822,054
	Cents	**Cents**
Basic earnings per share	**(0.52)**	(2.02)
Diluted earnings per share	**(0.52)**	(2.02)

Directors' Declaration

for the year ended 30 June 2021

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Mr J Challingsworth
Co-Managing Director and Co-CEO

29 September 2021

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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Tesserent Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Tesserent Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impact of Acquisition Accounting

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 39 *Business Combinations* of the accompanying financial report, Tesserent Limited made six acquisitions during the financial year (Seer Security Pty Ltd, Airloom Holdings Pty Ltd, Ludus Information Security Pty Ltd, iQ3 Pty, Lateral Security (IT) Services Limited and Secure Logic Pty Ltd). The accounting for business combinations was a key audit matter given each acquisition was material to the Group and involved significant judgements made by the Group, including: • Estimating the fair value of assets and liabilities acquired, in particular the valuation of identified finite life intangible assets acquired. Under Australian Accounting Standards, the Group is required to estimate the fair value of all assets and liabilities acquired. • Determining the fair value of the purchase consideration for each acquisition, including estimating the fair value of shares issued by the Company and estimating the fair value of contingent consideration dependant on future performance hurdles. Contingent consideration is required by Australian Accounting Standards to be recorded as a financial liability and subsequently re-measured at each period end based on the Group's judgement on whether future performance hurdles will be, or have been, achieved.	Our procedures included, but were not limited to: • Reading the relevant sale and purchase agreements for key terms to ensure the accounting for each acquisition is consistent with the agreement. • Obtaining an understanding of each business combination including an assessment of the accounting and whether the transaction constituted a business combination or an asset acquisition. • Ensuring the fair value of contingent consideration was in accordance with contractual arrangements and the requirements of Accounting Standards. • Comparing the fair value of assets and liabilities recognised on acquisition against the historical financial information of the acquired entities. • Assessing the competency and objectivity of the external valuation specialists engaged by the Company and considering the valuation methodologies adopted, and determining that we could use these reports as evidence for the purpose of our audit. • For the valuation of identified finite life intangible assets recognised on acquisition and with assistance from our internal valuation specialists, we assessed the reasonableness of the key judgements in the valuations, in particular, comparing the discount rates with rates generally observed in the industry, and comparing the expected useful life of the identified assets to generally observed useful lives for similar assets. • Assessing the competency and objectivity of the external valuation specialists engaged by the Company and considering the valuation methodologies adopted, and determining that we could use these reports as evidence for the purpose of our audit. • Considering the adequacy of the business combination disclosures under Australian Accounting Standards.

Impairment Assessment of Goodwill

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 20 *Goodwill* of the accompanying financial report, the Group has $83.3 million of goodwill assets, which are required to be tested at least annually for impairment in accordance with Australian Accounting Standards. This is a key audit matter because the impairment assessment process is complex and is required to be carried out at the level of the lowest identifiable cash generating units ('CGUs'). The assessment requires significant judgement and includes assumptions that are based on future operating results, discount rates and the broader market conditions in which the Group operates.	Our procedures included, but were not limited to: • Assessing whether the CGU's identified by management were in accordance with the requirements of Australian Accounting Standards and consistent with our knowledge of the Group's operations and internal reporting. • Engagement with our BDO IFRS experts to ensure that the assessment of CGU's was in accordance with Australian Accounting Standards. • Testing the integrity and mathematical accuracy of the value-in-use discounted cash flow models. • Engaging our BDO valuation experts to assist in assessing the discount rate, revenue growth rates and terminal growths rate applied to each CGU. • Challenging key assumptions, including forecast growth rates by comparing them to historical results, business trends, economic and industry forecasts and comparable organisations. • Comparing the cash flow forecasts for 2022 in the models to those in the latest Board approved budgets. • Evaluating management's ability to forecast future cash flows by comparing forecast cash flows to actual performance. • Engaging our valuation experts to perform a sensitivity analysis to identify whether a reasonable variation in the assumptions could cause the carrying value of the CGU assets to exceed their recoverable amount which would indicate an impairment. • Evaluating the adequacy of the disclosures relating to intangible assets in the financial report, including those made with respect to judgments and estimates.

Revenue Recognition

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 5 *Revenue*, the Group recognised $67.4 million (2020: $20.2 million) of revenue from five distinct streams (managed services, consulting (professional) services, software license subscription, hardware equipment sales and support & maintenance renewals). The Group's management focus on revenue as a key driver by which performance is measured. Each revenue stream has unique contracts with performance obligations and recognition criteria that require assessment under the 5 step model outlined in AASB 15 *Revenue form Contracts with Customers*. This is a key audit matter because the Group has complex customer contracts, including multiple and bundled performance obligations and agency arrangements. Revenue recognition was significant to our audit due to its complexity and amount of audit attention required.	Our procedures included, but were not limited to: • Understanding and documenting the processes and controls used by the Group in recording revenue. • Reviewing the Group's revenue recognition policies to ensure compliance with Australian Accounting Standards. • Reviewing vendor contract arrangements relating to the provision of software licences on an agency basis. • Performing substantive procedures on a sample of revenue transactions from each material revenue stream to supporting documentation. • Challenging management's assessments around individual performance obligations, particularly in relation to managed services contracts, and ensuring revenue has been recognised in accordance with AASB 15. • Testing cut-off around the year end to ensure revenue is recognised in the correct accounting period. • Evaluating the completeness of revenue disclosures including assumptions in the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 34 to 43 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Tesserent Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

David Garvey
Director

Melbourne, 29 September 2021

ASX Additional Information

As at 22 September 2021

The shareholder information set our below was applicable at 22 September 2021.

A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

SPREAD OF HOLDINGS	Number of Holders	Number of Units	% of Total Issued Capital
1 – 1,000	428	150,372	0.01
1,001 – 5,000	3,928	11,722,630	1.09
5,001 – 10,000	2,329	18,411,391	1.72
10,001 – 100,000	5,075	170,193,858	15.89
100,001 and over	1,022	870,879,070	81.29
TOTAL	**12,782**	**1,071,357,321**	**100.00**

Based on the price per security, number of holders with an unmarketable holding: 1,633, with total 2,198,294 amounting to 0.21% of Issued Capital.

B. DISTRIBUTION OF EQUITY SECURITIES – SHARE OPTIONS

Analysis of numbers of equity security holders by size of holding:

SPREAD OF HOLDINGS	Number of Holders	Number of Units	% of Total Issued Capital
1 – 1,000	–	–	–
1,001 – 5,000	–	–	–
5,001 – 10,000	–	–	–
10,001 – 100,000	5	450,000	0.25
100,001 and over	124	177,186,946	99.75
TOTAL	**129**	**177,636,946**	**100.00**

ASX Additional Information

As at 22 September 2021

C. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders.

The names of the twenty largest holders of quoted equity securities are listed below:

NAME	Ordinary Shares Held	% of Issued Shares
BELGRAVIA STRATEGIC EQUITIES PTY LTD	56,825,622	5.30%
SCOTT CEELY <CEELY INVESTMENTS A/C>	46,153,846	4.31%
G & N LORD SUPERANNUATION PTY LTD <GNR S/F A/C>	37,433,334	3.49%
SANBRU PTY LTD <SANBRU DISCRETIONARY A/C>	27,394,882	2.56%
CRAIG OWEN HUMPHREYS <COSEAR A/C>	20,410,431	1.91%
C14N PTY LTD	20,000,000	1.87%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	16,199,987	1.51%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	14,960,736	1.40%
UBS NOMINEES PTY LTD	13,954,746	1.30%
XERT SERVICES PTY LIMITED <J&T MANUEL FAMILY A/C>	12,998,583	1.21%
FLANNIGAN HOLDINGS PTY LTD <FLANNIGAN FAMILY SUPER A/C>	12,625,000	1.18%
MR JOHN GEORGOPOULOS	12,300,534	1.15%
MR ROBERT ANTHONY SILVER	12,065,965	1.13%
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	10,628,882	0.99%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	10,617,045	0.99%
SANBRU PTE LTD	10,573,838	0.99%
AVANTEOS INVESTMENTS LIMITED <9015040 KAGE A/C>	8,721,608	0.81%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,326,272	0.78%
CHRIS HAGIOS	8,259,999	0.77%
CITICORP NOMINEES PTY LIMITED	7,438,117	0.69%
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)	**367,889,427**	**34.34%**

As at 22 September 2020, the 20 largest shareholders held ordinary shares representing 34.34% of the issued share capital.

ASX Additional Information

As at 22 September 2021

D. SUBSTANTIAL SHAREHOLDERS

Substantial holders in the Company are set out below:

NAME	Ordinary Shares Held	% of Issued Shares
G Lord*	94,258,956	8.80%

* G Lord holds 8.80% through BELGRAVIA STRATEGIC EQUITIES PTY LTD - 56,825,622 shares, and G & N LORD SUPERANNUATION PTY LTD <GNR S/F A/C> - 37,433,334 shares.

E. VOTING RIGHTS

The voting rights attached to ordinary shares are set out below:

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

F. SHARE BUY BACK

There is no current on-market share buy-back.

G. ESCROWED SHARES

The following share sunder escrow are on issue:

Ordinary shares under escrow until 11 November 2021 – 20,756,370

Ordinary shares under escrow until 12 February 2022 – 2,935,995

Ordinary shares under escrow until 27 April 2022 – 21,072,986

Ordinary shares under escrow until 15 June 2022 – 3,198,293

Ordinary shares under escrow until 10 August 2022 – 1,000,000

Ordinary shares under escrow until 8 September 2022 – 500,000

H. SHARE PLACEMENT

On 24 September 2021, the Group launched and completed a capital raise – via an equity placement with a number of institutional investors, raising $25m to fund future identified acquisitions. An equity capital raise was chosen to optimise the (balance of debt to equity) capital structure of the Group.

I. USE OF CASH

Cash and assets readily convertible to cash held by the Company at the time of admission to the Australian Stock Exchange are being used in a way consistent with its business objectives as set out in the listing prospectus.

Corporate Directory

for the year ended 30 June 2021

BOARD OF DIRECTORS

Geoff Lord	Non-Executive Chairman
Julian Challingsworth	Co-Managing Director
Kurt Hansen	Co-Managing Director
Gregory Baxter	Non-Executive Director
Megan Haas	Non-Executive Director

COMPANY SECRETARY

Oliver Carton

Email: investor@tesserent.com

REGISTERED OFFICE

Level 5, 990 Whitehorse Road

Box Hill, VIC 3128, Australia

PRINCIPAL PLACE OF BUSINESS

Level 5, 990 Whitehorse Road

Box Hill, VIC 3128, Australia

SHARE REGISTRY

Computershare Investor Services Pty Limited

Yarra Falls

452 Johnston Street, Abbotsford VIC 3067

AUDITOR

BDO Audit Pty Ltd

Collins Square, Tower Four

Level 18 727 Collins Street, Melbourne VIC 3000

STOCK EXCHANGE LISTING

Tesserent Limited shares are listed on the Australian Securities Exchange (ASX code: TNT)

WEBSITE

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TESSERENT AUSTRALIA PTY LTD

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